Challenge

THE MAGAZINE OF ECONOMIC AFFAIRS

CONTENTS
Vol. 7, No. 9
JUNE, 1959

Published by Institute of Economic Affairs, New York University
Haig Babian,
Executive Director and Editor
Senior Editor: Martin Kessler *Managing Editor*: David Felix
Production Editor: Ted Berardicelli
Editorial Assistants: Dorothy L. Vix; Susan Turner
Business and Circulation staff: Arline Feigen, Mgr.
AnnaBella Merendino; Carol Sanders; Esta Weiner
Chairman, Policy Board: Harold O. Voorhis *Economics Consultant*: Harold F. Clark

Articles

THE MYTH OF MONETARY STABILITY.....*Henry H. Villard* 7
THE COMPLEAT INVESTOR.....*Rudolph L. Weissman* 12
IS DEFENSE AN ECONOMIC WASTE?.....*H. S. Rowen* 18
STATIC ON THE AIR WAVES.....*Charles A. Siepmann* 25
THE EXPANDING WHITE COLLAR.....*Aaron W. Warner* 30
WHAT'S NEW ABOUT INNOVATION?.....*William Letwin* 42
TRADE DUEL.....*J. N. Behrman* 47
CALL IT PROPAGANDA.....*Gerald L. Steibel* 54
FARM POLICY AT HOME AND ABROAD.....*Gardner Patterson* 60
THE NEW DEAL IN RETROSPECT.....*Daniel R. Fusfeld* 65

Interview

NORBERT WIENER..... 36
Professor of Mathematics, Massachusetts Institute of Technology

Departments

A PERSONAL NOTE..... 2
LETTERS TO THE EDITOR..... 3
CHALLENGE NOTES..... 5
CHALLENGE PROFILE..... 23
ECONOMICS IN ACTION..... 52
THE PERMANENT FRONTIER..... 70
EVERYDAY ECONOMICS..... 75
READING REPORT..... 77
CHALLENGE QUIZ..... 79
DEPT. OF BETTER MOUSETRAPS..... 80

from the editor

a personal note

■ WITHOUT A DOUBT Nikita Khrushchev is an extraordinary man. This is not said in admiration, but with a feeling that it is best to be realistic when measuring an opponent. The least we can say for the man is that he continues to display an active imagination and an agility of mind which is at once both disconcerting and baffling. Comparisons with Stalin, Lenin or Peter I are academic, for we would be talking about different men in different eras of Russian history. Be that as it may, if Nikita Khrushchev can manage to stay on the scene another six or eight years, his influence on Russian society will be as great as that of any of his predecessors.

The history of Russian progress is marked by fitful starts and lapses, with violence as a concomitant. Whatever else future Russians may remember him for, Khrushchev wants most to be remembered as the man who took the convulsions out of Russian progress. This would make him unique among Russian rulers. Where Peter was explosive, Khrushchev would prefer to seem dynamic. Where Lenin was dogmatic, Khrushchev would prefer to seem flexible. Where Stalin was cruel, Khrushchev would prefer to seem benign, albeit deviously. And on top of everything else that he would prefer to seem to be, he applies in generous proportions a layer of earthy humor, a very special type of humor that only shrewd, peasant antecedents can bestow. When a man like this puts on a show of confidence, there is no way in the world to know whether he is bluffing or working on a sure thing.

Khrushchev's recent visit to the site of the United States exhibit at the forthcoming Moscow Fair provided the occasion for a masterful display of typical Khrushchevism. His tour lasted only 45 minutes, but in that short time he managed to say and do a great deal. He posed for pictures and exchanged pleasantries with our Ambassador to Moscow and with the construction workmen at the exhibit. He was frank and friendly, and also full of jibes. He insisted that Americans take pictures with the adjoining Italians, since "You know, Italy is your ally." He expressed admiration for the aluminum dome that will cover the American exhibit, and his eye looked favorably on the tools being used by American workmen. He pocketed one of the brass rivets with the comment "Look, I am stealing this." He dismissed the now-famous prefabricated American home on display as not very durable, and therefore not fitting for the Russian way of doing things. Even a quilted nylon jacket worn by an American engineer came in for comment. "We must authorize our factories to buy the patent," he said. "Little by little, we steal."

The point is, Mr. Khrushchev is a man who knows what he wants. And he is so confident about getting what he wants that he will jest about stealing it, if necessary. The jest can bring no smiles to American lips –not unless Khrushchev is so bent on converting Russia that he inadvertently steals our ways as well as our methods.–H. B.

letters TO THE EDITOR

Challenge invites your comments. Address letters to CHALLENGE, *475 Fifth Avenue, New York 17, N. Y.*

New tariff?

• The freshness and vigor of the article, *Is American Capitalism Exportable?* II [April, 1959], illustrates what should be done to more of our professors; they should be exported. Prof. Hunter shows a live mind applying honest intellectual discipline to new experience. I realize that other scholars have refused to see new realities for the private visions they would not give up. Our mistake was to reimport them.

ANDREW VALENTSKI

Los Angeles, Calif.

Injunction

• I protest what one of your writers is doing to the English language with *Commune-ism in China* [April, 1959]. Now a word hyphenated in the middle! I am an English teacher and I can leave out a verb if I feel strongly enough about attaint to the language.

ALMA NICHOLS

Miami, Fla.

Quiz

• In the April issue you have articles entitled *Congress Wants to Know* and *The Hidden Budget.* It appears that if Congress really wanted knowledge, a matter of proven indigestibility, it would not let the bureaucrats screen off $30 billion of public spending. I suppose we the people and Congress, the peculiarly selected people, must be protected against themselves in the sticky money cupboard, but it's too bad. Why not a nice big article on *What Nobody Wants to Know?*

VICTOR MCANARNEY

Brooklyn, N. Y.

Negation begged

• In the current universe of tendentious publication where everyone always is taking sides, it was a little startling to find your judicious tone on every theme.

Tell me, is it that you don't hate anybody or that you think the world is past saving?

AMY LEWIS

Chicago, Ill.

A question of policy

• I had wondered if your editorial policy were so decidedly national and international in scope that you automatically ruled out articles dealing solely with the New York area. Your April interview with the executive director of the Port of New York Authority was highly interesting

and informative. I hope that your subscribers in other parts of the country will agree. I, for one, would welcome more discussions of this type dealing with institutions in various parts of the country.

MASON THRONDEL

New York, N. Y.

Autosuggestion

• As an old-fashioned autodidact I find your magazine both stimulating and richly informative. From my perhaps limited point of view one additional service would be extremely helpful. That is, if the author, who is necessarily well acquainted with the background of his subject, would supply a very brief list for further reading on that topic.

FOSTER PUTNAM

Washington, D. C.

Purchase preferences

• The author of your April article, *The Conservative Consumer*, surprised me by stating that "food expenditures have grown more rapidly than outlays for clothing." I have noticed that expenditures for food and clothing can be directly related to the number of teen-age girls per family. From the age of about 14 most women yearly spend increasing amounts for clothing and decreasing amounts for food. I suggest that Mr. Juster spend a week or two in such an atmosphere and then contemplate the possible effects of the growing tendency to let women make the family purchase decisions.

LESTER TRAINER

Dallas, Texas

Technocrat

• Do you ever face the fact that economics is not the beginning of a science? And that, whatever your pretensions, you are not popularizing or applying science but adding to the reams of silly chatter about matters too complex for the unaided human brain?

Some day the practical, realistic engineers will get annoyed enough with the confusions in this sector of life to turn their technological thinking to it. Then and only then will economics become factual–actual enough to be worth a thinking man's attention.

WARNER E. OTTS

Boston, Mass.

Suspicious

• At last an economist admits that those of his profession are capable of writing reports that are of meager help to those for whom they were intended [*Policy-makers and Economic Policy*, April, 1959]. The vagueness of the Economic Reports leaves me with the suspicion that nobody knows where we are going, or if someone does know he cherishes the information as his personal property, too revealing for the ears of either the public or the President. Why don't you get someone who knows to tell us?

HAROLD WEISS

Santa Monica, Calif.

Circle of ease

• Any businessman that has ever met a payroll can prove that the welfare state is its own contradiction. The very people that want security will do less and less as more and more is provided. You wind up with no one working to supply everyone's legal expectations.

MICHEL LEVEQUE

San Francisco, Calif.

Challenge Notes

A shortage of space; the cost squeeze and American exports; eggheads and patriots; where crime does not pay

■ WHILE SCIENTISTS are busy exploring the outer space of the universe, economists are becoming increasingly concerned about the scarcity of space on earth.

The problem, as a recent report by the Twentieth Century Fund points out, is not primarily one of "finding room for people," but of enabling them to do the space-consuming things which are part of life in any highly industrialized civilization.

Thus, our space problems differ from those of underdeveloped countries. There, it is a question of making space productive enough to keep people alive. In India, for example, the economy can barely keep alive 305 persons per square mile, while the State of New Jersey, which has more than twice the population density of India, enjoys affluence. In underdeveloped areas, the problem is not too little space, but too many people for the productive capacity of the economy.

But in a city like New York, which has a population density of 2,500 persons per square mile (and considerably more than that during peak rush hours), the problem *is* lack of space–for automobiles, power facilities and even for people. The centralized city has already ceased to be a manufacturing center and shortage of space is making civilized town life increasingly difficult.

But as more and more people move away from the city and into outlying suburbs, exurbs and interurbs, free or undeveloped space becomes scarce.

And unless we can plan cities so that they can *comfortably* accommodate an even greater population density, this trend will continue. In the long run, our only chance of saving green spaces may be to make our cities even more populous.

The cost squeeze

Does the recent outflow of gold from the U. S. represent a major

threat to the dollar? Are we in danger of becoming a "soft-currency" nation?

Most experts would agree with Dr. Per Jacobsson, Chairman of the International Monetary Fund, that such fears are, at present, unfounded. The United States still controls more than half of the world's total gold stock and our major trading partners still jealously hoard their precious dollar credits.

On the other hand, the flight of gold does represent, to quote Dr. Jacobsson again, a "warning about the trend of costs and prices" in this country. The fact is that domestic costs have been rising faster, and productivity has been rising slower, than in many of our major export markets. Today, the U. S. has higher labor costs than any West European nation, and our over-all unit production costs are higher than in any European country, with the exception of France. At the same time, our rate of productivity increase has, until very recently, lagged far behind that of every European nation, excepting Great Britain.

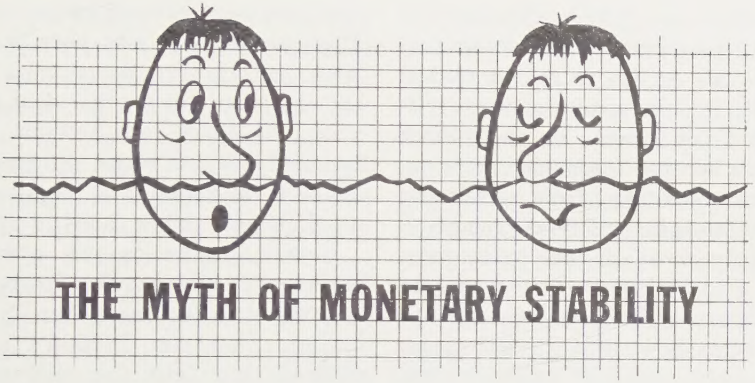
The result of this "cost squeeze" is clearly reflected in our exports, which declined by $3 billion in 1958 –the sharpest annual decline in more than 10 years. With the removal of many barriers to intra-European trade, we are finding that many of our major export goods are no longer priced competitively. And it is this rigidity of our production costs (and our low rate of growth) that we should be worrying about rather than a little loss of gold.

Eggheads and patriots

A leading advertising executive recently suggested that the Advertising Council conduct a nationwide campaign to create better public appreciation for the egghead. In line with this noble objective, he suggested such mottoes as "It's *patriotic* to be an honor student," or "The cold war can be won if *you* get straight A's," or, most horrible of all, "If you don't aim for higher marks, you're *not* a good American." Well, the idea might work. On the other hand, it might backfire. Such slogans might induce youngsters to become unpatriotic and un-American–as well as lowbrow.

Crime does not pay

A recent study of the sales impact of different television programs reveals that, irrespective of Trendex ratings, "live, creative and nonviolent television was the best commercial buy for most sponsors." More people may watch the other kind of program, but apparently they would just as soon forget about the sponsor responsible for scaring them out of their wits.–M. K.



THE MYTH OF MONETARY STABILITY

An economist argues that excessive concern with countering inflation will lead to economic stagnation

by Henry H. Villard

■ I DO NOT DOUBT the technical ability of the Federal Reserve System to prevent inflation. A 10-percent rediscount rate, massive sales of government bonds, and reserve requirements at their maximum would certainly bring about a decline in general prices. What concerns me is the rather strong probability that the use of monetary policy to control inflation will do more harm than good.

To illustrate the problem: since 1914, the French have run a first-class inflation, depreciating the franc from a level of one-quarter of our dollar to one-five-hundredth. The one time during this long decline when France would have won the praise of William McChesney Martin, Chairman of the Federal Reserve Board was from 1928 to 1940, when France made a valiant effort to maintain the value of the franc. But during this same period the French economy stagnated, and class conflict became intense. Since 1945, on the other hand, French prices have increased perhaps five times more rapidly than our own. Yet, the French economy has expanded significantly faster than ours, and a great deal faster than the British economy, where concern for inflation has reached a level that must warm Mr. Martin's heart!

Note that I do not say that inflation is essential for economic development. My basic point is that to prevent inflation we simply cannot afford to use devices which significantly retard economic development. The crucial question is

whether the wage restraint induced by monetary restriction justifies the decline in output that is likely to accompany such restriction. I concentrate on restraining wages because I consider price declines resulting from squeezing profit margins and from unemployment as no more than temporary. For I believe that governments–or monetary authorities–that attempt to saddle us with permanent unemployment are not long for this earth. Hence, unless wages are restrained, nothing permanent will have been achieved.

Settled for less

How effective is monetary policy in restraining wage increases? Recent history shows how little it can do. Clearly, the one-third decline in automobile production that took place during the first four months of 1958 caused the auto union to settle for far less than it wanted. But (a) the decline was obviously intolerably large; (b) the union will certainly go into the next round with much larger demands; and (c) *in any event* it got a contract providing for an average annual increase in wage costs which must amount to not less than three per cent.

Again, for the economy as a whole during 1956, our last calendar year of full prosperity, average hourly earning increased 12 cents–or 6.2 per cent. The same figure for 1958 was nine cents–or 4.3 per cent. This was clearly less than what labor had become accustomed to, but obviously not a great deal less when one takes into account the fact that the next round will almost certainly be higher just because of the difficulties labor faced in 1958.

Finally, no nation has worked harder over the last few years to restrain wage increases than Great Britain. However, Britain's long struggle has thus far only succeeded in holding the increase in wages in 1958 to 3.5 per cent, in contrast to the five per cent that had previously prevailed! In short, monetary policy can doubtless do something to restrain the increase of wages, but quantitatively not much.

Now let us look at the other side of the coin. How much production have we lost because of efforts to use monetary policy to prevent inflation? Until the last recession, little was involved. If the gross national product had increased steadily from 1946 to 1956, it would have averaged $342 billion in 1954 prices. Actually it averaged $335 billion, so that the average loss over the period due to cyclical unemployment was perhaps two per cent. Further, I would not be inclined to attribute much of the loss up to 1956 to efforts to use monetary policy to slow down inflation.

The trouble is that the response

of the Federal Reserve to the events of 1953-54, which I felt was a first-rate effort, is now generally regarded by Federal Reserve officials, in view of the subsequent inflation, as having been altogether too liberal and a mistake. It is this which explains both the slowness of the Federal Reserve to ease credit in 1957 and the speed with which it was tightened in 1958. Hence, I think the Federal Reserve must be credited with rather more responsibility for the 1957-58 recession and for present unemployment than in the previous two postwar cases.

Just how much "credit" shall we give them? Unemployment in 1958 averaged a little over $2 million higher than in 1956. Related to the 1958 civilian labor force, "excess" unemployment works out at an average of three per cent. Further, hours in manufacturing industries were also three per cent below what they had been in 1956. But manufacturing was obviously harder hit than the rest of the economy. Hence, I think we can set five per cent as an outside estimate of the cyclical waste of resources that occurred in 1958.

"Secular stagnation"

Of this total–and here the guessing character of my estimate is so obvious as to need no apology–I would not credit the actions of the Federal Reserve with responsibility for more than 40 per cent–or perhaps a loss of two per cent of total production.

The use of monetary policy has therefore not been particularly costly, but neither has it accomplished much. My main worry is that failure will merely lead to more costly efforts in the future, which in turn will bring on the sort of "secular stagnation" induced by monetary restraint that Britain seems to have endured in recent years. In 1955 industrial production in Britain increased sharply, but thereafter there has been practically no expansion. As I see it, the present stagnation and its accompanying unemployment have not been caused by the usual sort of cycle, but rather, in large measure, by quite strenuous activity on the part of the monetary authorities. Three years of stagnation seems to me a fantastic price to pay to achieve a reduction in the rate of increase in wages from five to 3.5 per cent!

Further, particularly in the British case, monetary restraint is typically accompanied by a differential impact on investment. I do not believe any nation can stagnate as Britain has done for three years without severe repercussions on the willingness of business to invest. And we know that, as part of the over-all effort to reduce inflationary pressures, the supply of investment funds available to nation-

alized industries in Great Britain was drastically curtailed.

The Federal Reserve authorities can, of course, no more be expected to admit that they create unemployment than a minister can be expected to declare for sin. But they are busily engaged in creating the *myth* that price stability is essential to prevent unemployment. In addition to the French case, recall that our depression followed a period of substantial price stability, while the quite unexpectedly low level of unemployment since World War II has been accompanied by a substantial rise in prices. And we know that over the long term, two out of three years were prosperous when prices were rising, while two out of three were depressed when the price trend was downward.

"Villard's law"

But if monetary policy cannot really influence the level of wages, what can? As an explanation of what is involved, I offer you Villard's law for the determination of wages, which states quite simply that wages tend to rise at the rate which keeps union membership contented. Now suppose, under the operation of my law, there is a tendency for wages to rise more rapidly than productivity. In this situation, what can be done if monetary policy is unacceptable? The first goal is to achieve arrangements which minimize the amount of bacon (in the form of wage increases) that union leaders have to bring home to keep their membership contented. One obvious way to minimize that amount is to give union leaders credit for all wage increases that take place–even if they would have occurred without union action. This requires businessmen to make nasty noises in the direction of unions every time that collective bargaining occurs. Certainly, the situation which presently prevails in some industries makes no sense. For in them the entire normal increase in productivity is given away free, forcing the unions to create inflationary pressures if they are to bring home any bacon whatsoever for which they can claim credit.

Besides giving unions credit for all wage increases, I am mildly optimistic as to what can be done by educating union leaders. But I am not sufficiently optimistic to believe that union membership is likely to be kept contented by annual increases of less than five per cent.

If this is so, what is to be done? My answer is simple: achieve a five-per-cent annual increase in per capita productivity. This is obviously essential, as I see it, if we are to stay in the race with the Soviet Union. Surely in terms of its impact on the shape of the world in the year 2000, there is

nothing of comparable importance. In one decade the difference between an annual 1.5- and a three-per-cent increase in per capita productivity, allowing for compounding, is roughly the difference between a 20- and a 40-per-cent increase in per capita income.

Assuming that the more rapid rate would cause production to be 10 per cent higher at the midpoint of the decade, achieving the higher rate of development would appear, even within the decade, to be perhaps five times as important as eliminating all the unemployment that we suffered between 1946 and 1956. And the higher rate would, in addition, permit us to start the following decade at a level 20 per cent higher than if the lower rate had prevailed.

"Full-employment" productivity

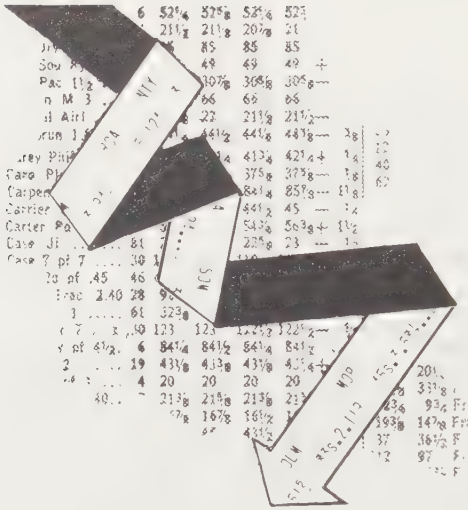
The main problem of economics today derives from our ignorance of what is involved in achieving a five-per-cent increase in per capita productivity rather than the two-per-cent increase that appears to have prevailed since 1875. Just as the French generals were in 1940 brilliantly equipped to fight a war of the 1914 variety, so economists today are well equipped to deal with the prevention of cyclical unemployment when what we really need is a more rapid increase in "full employment" productivity!

My third line of defense against inflation is to eliminate long-term contracts fixed in dollars. We are all aware that adding or subtracting a zero makes no difference in any economy if it affects every transaction. We have already, in effect, eliminated fixed payments in the case of social security, where payments will clearly be kept in an appropriate relationship to the value of the dollar by Congressional action. And many successful businesses get along quite nicely without long-term debt.

Suppose, despite all these suggestions, considerable inflation continues. As an ultimate defense against the harm of inflation, I would offer the elimination of long-term contracts fixed in dollars. Obviously, this is a drastic suggestion which I cannot here elaborate. But, if inflation is the way of life that we prefer, I do not believe that we should have any serious difficulty in creating the appropriate institutional arrangements to make it a viable way of life. The one thing that we must not do is to ruin our prospects for rapid development in an effort to achieve price stability. ■

Insular

THE ISLANDS of the world comprise nearly four million square miles (seven per cent of the earth's land surface), somewhat more than the area of the U.S. including all its territories and possessions.



Learning the abc's of the stock market is the first rule for sensible investment–a rule often overlooked

by Rudolph L. Weissman

the *compleat* investor

■ FROM THE point of view of stock market psychology, the year 1959 is showing more similarities to disastrous 1929 than any other year of our prosperous postwar period. Most striking and dangerous of the parallels is the obvious eagerness to get rich quick through the purchase of common stocks.

We are observing the entry into the stock market of people who were afraid to come in yesterday. Formerly content with interest from banks or government bonds, they have permitted inflation and Wall Street legends to encourage rather reckless investment ventures. The observer notes these similarities:

• Indifference to current earnings of the companies in question or actual return from dividends.

• Rejection of the sound advice of investment counselors by the inexperienced investors.

• Feverish interest in hourly fluctuations.

• The frequency with which the stock market becomes the subject for conversation whenever people come together in any social gathering.

• Reluctance to sell and the idea that stocks of "good" companies can safely be bought at any price. In pre-1929, people believed themselves to be in a "new era," when future progress would make good their wager that stocks would rise. Nowadays people assume that their "growth stocks" will keep on growing. During the Twenties investors let the small capital gains tax discourage them from selling. That

tax has since been doubled and thus acts as a stronger reason for holding stocks.

I have lectured to various groups on the problems of investing and, for the past eight years, I have given courses in Brooklyn College. In addition, thus, to what I have observed in my work in the financial district, I have been able to acquaint myself with the off-Wall Street thinking of investors and potential investors. With my first-hand knowledge of the investing public in the 1929 boom I can compare attitudes and actions. I have also noted differences.

Until around 1954, the outstanding difference between contemporary and precrash investors was that the 1929 investor's emphasis was on making a quick profit. He used relatively large amounts of credit to take his chances on common stocks. He did, however, have an important interest, until the last stages of the bull market, in buying bonds and preferred stocks for income. Since the depression and before 1954, the investor was more interested in buying for the long pull, making his purchases with cash rather than on margin. Yet for some years now the individual investor has more or less ignored the income factor and stressed capital gains. This is the result of much higher individual income tax rates than in the Twenties and Thirties. The change is so marked that a relatively good dividend return is no longer a major factor in persuading the investor to buy a given stock.

Another outstanding difference is the tremendous increase in investing through investment companies and directly or indirectly through pension funds. Except for the short-lived craze in 1928 and 1929, the investment company was a relatively minor figure in the investment process. While its significance may be exaggerated, the oft-repeated statistics tell unmistakably of its importance and growth in the investing programs of individuals. In 1941 investors bought $53 million of investment company shares. By 1949 the annual amount expanded to $385 million; and by 1958 purchases had risen to $1.6 billion. Common stock holdings constitute more than 80 per cent of the current $14 billion in investment company assets.

What are the other main differences? The most conspicuous is the tremendous rise in the number of women investors. Recently I was asked to address a joint meeting of alumni of two leading women's colleges. I told them that in the Twenties the group would more likely have had someone address them on the social significance of the novels of Sinclair Lewis or on George Bernard Shaw's dramas.

Another difference is the larger

number of investors in recent years who make a serious attempt to understand the nature of securities and securities analysis. This has been aided by the vastly greater amount of information available and the superior material published by leading newspapers, financial institutions, periodicals and many brokerage firms. The larger number of economic majors in the colleges and graduate schools of business, and the many evening courses in investments are also factors that cannot be ignored. There are many more "intelligent investors" than in earlier years, to borrow from Benjamin Graham's book of the same title, although there are not nearly as many as there should be. Finally, certain institutional differences necessarily have an impact on the investor. The Securities Exchange Act and the Securities and Exchange Commission, as well as the vigilance exercised by the New York Stock Exchange, have not eliminated pool manipulation and undesirable practices, but they have cut them down substantially.

Facts and interpretations

The market letters and studies of brokerage firms vary widely in quality. Usually the facts are accurate but the interpretations are varied, a good reason for taking a course in securities analysis. Wall Street does not "know" as a rule what action boards of directors will take. No one knows what the course of a stock will be because of the unpredictable flow of orders, news developments and changes in psychology. Orders are executed carefully and honestly, and distrust is rarely well founded. The investor should remember that many things may happen in the four or five minutes it takes to execute an order.

Many misconceptions exist. Some investors are obviously unsure of the basic differences among bonds, preferred stocks and common stocks. It is not rare for a student to express the mistaken belief that the SEC determines dividend policies, or that the dividend is related to the price of a stock in the sense that directors are guided by quotations. These investors do not realize that earnings, financial position and the outlook for profits determine dividend policy. Investors do not always understand the wide variation among common stocks–to what extent the kind of industry in which a company is engaged determines the character and changes in earning of a stock, for example.

Nor do students appreciate that there is a significant difference in the quality of common stocks depending on variations in the form of corporate capitalization. Often a student, puzzled by the virtues of the stocks of regulated industries,

like electric and gas utilities, asks: How can the stockholder benefit if earnings are limited to five or six per cent on the invested capital? The instructor then tells them of the extraordinary growth record in the demand for such services and how the common stockholder derives benefits from the fact that a relatively large part of the capitalization may consist of bonds and preferred stocks. The cost of this capital, on the average, may be 3.5 to 4.5 per cent, so that the overflow of company revenue goes to the advantage of the stockholder.

Questions and answers

The average age of the students in my "Investing in Securities" classes seems to be around 30 or 35. About two-thirds of the persons attending a typical class have made investments or are in a position to buy securities in amounts ranging from $2,000 to $25,000, with perhaps a mean of around $7,500. Some of those with funds, however, have not as yet invested in securities, aside from United States Treasury obligations. Ten or 15 per cent take the course simply out of a desire to be better informed.

From questions most frequently asked in class, it is clear that distrust of the complex known as Wall Street has not entirely disappeared. Investors often worry about the disinterestedness of advice. Is the broker or his representatives trying to palm off securities which are undesirable holdings? Is a recommendation made merely to earn a commission? Are the facts as given, particularly orally, accurate? Why was I not told that the dividend would be increased or reduced? Why are commission rates so high? How is it that I sold at or near the low price for the day?

The teacher tells his class that most brokers are honest in their recommendations and do not make them solely in order to earn commissions. Intelligent self-interest is a check against such a practice. Unfortunately, some customer-representatives are guilty of "churning" their accounts–encouraging excessive buying and selling–a practice in violation of the SEC and New York Stock Exchange rules. Unfortunately, too, investors at times invite this practice by their own impatience.

Investors have to be informed that par and book value are of little significance in determining the attractiveness of most stocks, although book value is of some importance in public utility and bank insurance company shares. Why didn't my stock move up when the excellent earnings statement appeared? The answer is often in the form of another question: Hasn't the stock advanced in recent weeks? In other words, the news was anticipated. How may I

judge the attractiveness of a common stock from one single fact? The answer is usually that you cannot. The investor must learn that there is no one fact, there is no short road to investment wisdom.

The investor who does not wish to rely on others must learn how to use the tools of the analyst. The annual report of a company is an unrivaled source of information. The security analyst also studies trade and government reports, and often has the benefit of meeting with company officials. Comparison with the stocks of other companies engaged in the same industry is necessary. The obvious difficulties of doing this work properly is undoubtedly one of the most important reasons for the growth of investment companies.

Shall I buy one stock, or should I diversify? Shall I buy investment company shares only? What per cent of my funds shall I invest in common stocks, and out of this sum, how much shall I invest in different industry groups like oil, electronics, automobiles and aviation? Is this the time to buy, or shall I wait? If you think the stock market is at a high level, why shouldn't I sell my stocks and buy them back at lower prices later?

The class is informed that diversification is desirable, but can degenerate into "scatteration"–too many securities–so that the attainment of exceptionally good results is difficult. Five or six well chosen common stocks can provide a satisfactory degree of diversification for a portfolio of $10,000 to $20,000. One diversifies because the "best" industry or the "best purchase" is unknown. Investment company stocks have many attractions, and the purchase of their issues generally means that the investor has given up the idea of trading or "beating" the market. This alone is an important gain. There is no compelling reason why investors should not own both individual issues *and* investment company shares.

No "ideal" portfolio

Each investor must adjust his portfolio in the light of his income, net worth, objectives and personality. There is no "ideal" portfolio equally suitable for every investor. Except at extremely rare intervals, it is possible to find sound securities that are reasonably priced and show a fair return. No one *knows* that the market is so high that it is advantageous to sell all of one's common stocks. There is always the risk that if a decline does take place, the investor will wait for still lower prices, and in the end repurchase at no advantage or even at higher prices.

Finally, the teacher tells his students about the problems of the investment adviser. It is helpful

for the investor to learn what problems he causes his counselor. The teacher warns against fighting the market–trying to buy at 49½ when a stock is offered at 50 or 50½. No one can judge values so closely; if a stock is a sound investment at 49½, it is sound at 50½. "Monday morning quarterbacks" are unpopular in football and in the investment process add to the difficulties of the adviser. It is strange, but nevertheless true, that investors will overlook a poorly timed recommendation to buy, but the investment adviser who recommends the sale of a stock that later rises substantially has committed the unpardonable sin.

A teacher cannot but reflect with some satisfaction on the fact that some students have learned not to view the stock market as one does a horse race, but have tried to understand the methods and problems of security analysis. They have also perhaps learned that one should look upon stock ownership as demanding a proprietary interest in the business of the issuing company. Above all, while one may succeed in trading actively, this is something essentially for the professional with a good deal of money. Others, as a famous speculator has told us, at best have but a dim chance even if they devote all their time to trading and, in addition, they have "the nerves of a great gambler, the sixth sense of a kind of clairvoyant, and the courage of a lion." The author of these words is Bernard Baruch. ■

Cigarettes as Currency

AN ECONOMIST interned in a prisoner-of-war camp during World War II finds that the camp's economy reflects certain basic principles which are more easily observed in a controlled environment:

"Although cigarettes as currency exhibited certain peculiarities, they performed all the functions of a metallic currency as a unit of account, as a measure of value and as a store of value, and shared most of its characteristics. They were homogeneous, reasonably durable, and of convenient size for the smallest or, in packets, for the largest transactions. Certain brands were more popular than others as smokes, but for currency purposes a cigarette was a cigarette. Their principal disadvantage as a currency [was] a strong demand for nonmonetary purposes. Consequently our economy was repeatedly subject to deflation and to periods of monetary stringency. When the [Red Cross] issue was interrupted, stocks soon ran out, prices fell, trading declined in volume and became increasingly a matter of barter. This deflationary tendency was periodically offset by the sudden injection of new currency. Several hundred thousand cigarettes might arrive in the space of a fortnight. Most of our economic troubles could be attributed to this fundamental instability."–R. A. Radford, "The Economic Organization of a P.O.W. Camp"; *Economica*, Vol. XII., 1945.

Is defense an economic waste?

We have spent $500 billion for defense since World War II, but not all of it has been irretrievably lost to economic progress

by H. S. Rowen

■ IN THE continuing public debate on the nation's defense policies, substantially all of the participants agree, sometimes tacitly, that defense expenditures are a necessary waste. Some think them less necessary than others, and, in fact, there is an influential body of opinion that holds that these expenditures threaten us with the fate of "bankruptcy." Most seem to be agreed that these expenditures divert a substantial part of our national product into channels less beneficial to our citizenry at large than alternative ways of using these resources.

We have spent about $500 billion on defense since World War II and will probably spend that much again during the next 10 years, barring a worsening of the world conflict or a major settlement of international differences. This is about as much as the nation has been investing in all plant equipment and about three times as much as we have been spending on education.

Yet we include this category of government spending together with other government and private expenditures in arriving at the gross national product. This treatment of defense expenditure reflects the opposing view that the government sector, like the private sector, does produce a "useful" product.

If I may oversimplify somewhat, we have then two broadly different views: on the one hand, the traditional one that whatever the merit of spending for defense, it

is not an activity that contributes *directly* to economic well-being; on the other hand, there is the practice, for some purposes, of putting defense expenditures on an equal footing as spending for consumption.

Why does defense spending seem wasteful? Largely it is because this money is spent on weapons that cannot be used by consumers and cannot be used to produce other goods. We do this because a potential opponent threatens us with his weapons. Hence we have an arms race that appears to be without end, unless it ends in a war. The benefits of cooperation in reducing or eliminating this expense are clear.

Even on the view that defense in principle does not have economic benefits, it is not true that every dollar spent on defense is a dollar subtracted from the civilian economy. There is a good deal of defense spending that directly or indirectly spills over and benefits the civilian economy. We are all familiar with many kinds of investment by the Defense Department that have important civilian uses. For example, the defense budget pays for many factories, airfields, ports, roads and communications facilities used by everyone. The development of the two new states of Alaska and Hawaii has been greatly accelerated by this type of investment. Historically, there is the outstanding example of the Panama Canal, brought to reality by a President interested primarily in its benefits for our Navy.

Probably the most important type of defense spending that affects the civilian economy is spending on the development of new technology. Some entire industries are largely dependent on the defense budget for technological progress. There are, for example, few civil aircraft in operation today whose development has not been very greatly accelerated by the production of military predecessors. And we can be fairly certain that we shall not have supersonic civil transports until the Defense Department has paid for most of their cost of development. Similarly, the atomic power, shipping, metallurgical, electronics and many other industries also depend, to some extent, on the defense establishment to pay for technological advances that later have direct civilian application.

The magnitude of this contribution to the civilian economy is suggested by the fact that about 40 per cent of the nation's total research and development, and about 20 per cent of basic research, is paid for out of the $3.5-billion defense research and development budget. These percentages undoubtedly overestimate the importance of defense research to the civilian economy in some re-

spects, since defense research has quite different goals from civilian-sponsored research. On the other hand, research expenditures in general are believed to be socially more useful relative to their cost than most activities, since the gains from research typically benefit society as a whole.

Train manpower

Another defense activity with obvious benefits to the economy is the training of manpower. The services operate huge training programs, and American industry takes advantage of these by drawing freely on the skills of ex-servicemen. In some instances, the step between service schooling and industry employment is short indeed. Several years ago, 92 per cent of the skilled aircraft mechanics in one of the services failed to re-enlist after a single four-year tour; the cost of training a mechanic was over $15,000. However painful the results to the military, this training function of the services probably saves industry several hundred millions of dollars a year.

At a very different level, defense spending contributes to the stability of the economy. Both in the 1953 and 1958 recessions, a high level of government spending helped to limit their extent. This spending had an "automatic" stabilizing effect. To be sure, the stabilizing effect is a consequence of a high level of government expenditure and does not depend necessarily on defense expenditure. However, unless other equally effective countercyclical policies were to be adopted, and it is by no means certain that this would be done, defense expenditures have this important payoff. This use of the defense budget in effect reduces substantially the net cost to the country of defense.

But each of these views, it seems to me, miss the main issue. Why should defense expenditures have been regarded as not contributing to economic welfare in the first place? What, we may ask, are defense expenditures supposed to accomplish?

We hope to achieve "security." Absolute security is unattainable in an uncertain world, but we can win a greater measure of security in the sense that we reduce the likelihood of a major war. We want to help protect our allies; limit damage to ourselves and our allies if a war does occur, and to end it quickly if it happens, having preserved as much as possible of our population, our economy, our cultural values and our liberty.

It is appropriate, then, to regard our defense program as an *investment intended to reduce the risk of loss.* This, of course, is a familiar enough notion in the operation of both firms and households. For ex-

ample, we do not typically regard spending to fireproof our factories or homes, or spending on improving highway safety as wasteful. Nor do we usually regard expenditures for insurance as detracting from our well-being. Some of our defense expenditures clearly have the character of being risk reducing. We are paying out of our current income for a greater probability that we shall be spared a war and its consequences.

Another set of our defense expenditures has a different emphasis. These are expenditures that would help to limit damage to us if war were to occur and would aid in our postwar recovery. Of course, policies of deterring war and limiting damage are not independent, since the likelihood of a war is affected by the likely damage. Expenditures on this latter sort of capability take the form of insurance. A moderate civil defense program a good deal larger than our present, almost nonexistent one has this character. It would be, literally, a kind of life insurance.

Moderate programs

To what extent can we invest in limiting war damage? Much can be done even with moderate programs, especially in the field of civil defense. For example, an investment of less than a billion dollars in emergency fallout measures could mean a difference in population casualties of tens of millions. Larger investments in blast shelters and in measures to promote a more rapid postwar recovery are also possible. In short, we have a choice between present consumption and spending for an uncertain contingency–a general war.

What are the risks facing the United States? What damage might we suffer if general war were to break out? It is at least conceivable that attacks on this country would be confined to military targets. Even then there would be casualties running into the millions as a by-product of such attacks. If cities were the target of attack, high-yield bombs dropped on our 50 largest cities would destroy about half of our manufacturing capacity, and, neglecting fallout, about one-third of our total population. It is conceivable that as much as 90 per cent of our population and economy might be destroyed. In short, general thermonuclear war carries with it outcomes that range from serious damage to annihilation. It is important to note that annihilation is not inevitable. This depends partly on our defense choices. We *can* buy some insurance against this.

A quantitative measure of *all* that we might lose from a war is not to be had. How does one measure the value of liberty? But there *are* some relevant quantities. For example, the nation has, at current

prices, about $1,200 billion of structures, equipment and inventories. If we could reduce the expectation of loss to this capital stock by only four per cent, over say a one-year period, we should be willing to spend an amount greater than our present defense budget. In fact, we might be prepared to spend more than this amount just to reduce the uncertainty of loss, not to mention the other catastrophic consequences of a general war. In other terms, by spending 10 per cent of our GNP on defense we hope to continue consuming and reinvesting the remaining 90 per cent of it.

The expenditure of $500 billion since World War II clearly has not bought us absolute security. On the contrary, recent Soviet military achievements suggest that our situation may be precarious and that we should have been spending still more. Ten years ago, we were spending very much less. Before the invasion of South Korea, we had a defense budget of about $14 billion a year. During the next several years, we spent about four times as much annually, while thousands of our servicemen lost lives. We cannot be certain that the war would have been prevented had we been better armed in 1950, but even a modest increase in our capabilities might have spared us the large sacrifices we did make. To choose a somewhat more distant example, we might reflect on what even moderate defense expenditures in the early and mid-1930s might have accomplished in preventing World War II.

In sum, while there are good reasons why we prefer spending our money on schools and churches and automobiles to spending it on missiles and bombs, it is appropriate, especially in the thermonuclear age, to regard the weapons we buy as contributing to our welfare, even to our economic welfare. This view is independent of the level of our defense spending. It applies to any level of budget, and to decreases as well as increases. In any case, we should be careful that when the term "waste" is applied to defense, and this term is often appropriate, it be used with precision. There are many different ways in which the economy benefits from defense. Above all, we should be conscious of the risks of not carrying out a large defense program as we enter the Sixties. ■

From Model T to Jet

ABOUT 35 per cent of all iron and steel is irretrievably lost by rusting or burial, or is abandoned as worthless. The other 65 per cent returns to the steel mills for remelting and reuse. About 20 to 25 per cent is returned in a short time, and the rest within 30 years or more, according to a Twentieth Century Fund report.

Challenge Profile

Frank Pace, Jr.— Administrator Without Limits

■ IT WAS NOT until 1952 that the Electric Boat Company decided to recognize its engagement with the future by discarding its archaic name. The leap in nomenclature to General Dynamics Corporation has since been justified by the production of atomic-powered submarines, supersonic jet bombers and intercontinental ballistic missiles.

Students of the firm's history believe also that the new name was more appropriate for a company that hired Frank Pace, Jr. after his kinetic government career. Only 40 when he took the new job in 1953, Pace had been, respectively, a surplus-producing Director of the Budget and Secretary of the Army in the Truman Administration.

The acquisition of Pace was the last accomplishment of John Jay Hopkins, the company's finance-minded president, who had diversified and expanded it from a mere manufacturer of conventional submarines. Hopkins made Pace executive vice president and put him in charge of production, sales and research, so that Pace could learn those parts of the business for which he had no previous training. Meanwhile Hopkins made use of Pace's previous Washington experience, important for a firm that did 85 per cent of its business with the government.

Hopkins' final decision, as he lay dying in 1957, was to name Pace as his successor. Government business, dependent on the will of an administration wavering between economy and defense necessity, has uncertainties which can more than match the element of chance in the private market place. Pace is not denying his career origins when he tries to shift the com-

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

pany's center of gravity somewhat toward the private sector. General Dynamics will always have much to do with government, since atomic power and space transportation demand a broader foundation than that furnished by the efforts of entrepreneurs; but Pace has spoken of an ideal division of business defined in 50-50 terms. Considerable space still remains between ideal and accomplishment, however.

Pace had developed swift momentum in his Arkansas home before his association with such galactic concerns. He graduated from high school at 14, marked time in a preparatory school, and then got through Princeton and Harvard Law School to become an Arkansas assistant district attorney. In two years he was general counsel for the Arkansas Revenue Department. The career was not a progress from poverty to distinction, a story that is becoming rare in our possibly affluent society, since his father was a wealthy attorney with the kind of connections that are useful for an aspiring young man.

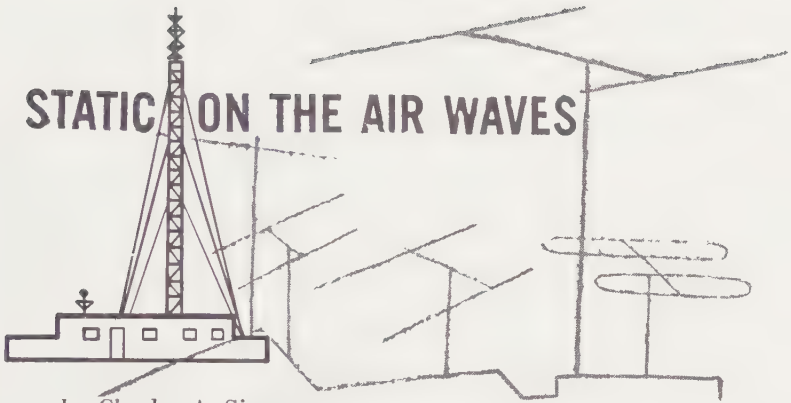
The old firm name lives on in the Electric Boat Division of Groton, Conn., which built the nation's first atomic submarines. Other divisions include:

- Convair, formerly Consolidated Vultee Aircraft Corp., producer of aircraft and missiles.
- Electro Dynamic, producer of advanced electric motors.
- Liquid Carbonic, producer of carbon dioxide for soft drinks, a tame product for such a company, but related through scientific magic to missile fuels.
- General Atomic, which conducts research in controlled thermonuclear reactions.
- Stromberg-Carlson, manufacturer of telephone and electronics equipment.

There is also a subsidiary, Canadair Limited, one of Canada's largest aircraft manufacturers.

Maintaining a small headquarters in New York City, General Dynamics operates on the principle of great autonomy for the divisions, but the president and chief executive officer must drop in occasionally, a duty that takes Pace, an excellent golfer as well as a skilled wielder of the tennis and squash racket, away from home for about half of the time.

General Dynamics has a gross annual business of a billion dollars. On the basis of its exciting and reassuring corporate history, the company can calmly speak of new ambitions: "The achievement of manned space flight is likely to follow an orderly development." The recent selection of seven space pilots indicates that the military is going along with General Dynamics in this orderly development.–D.F.



by Charles A. Siepmann

Having permitted the erosion of its basic policy, the FCC has lost touch with the public interest

■ PICK UP A PHONE, send a telegram, switch on your radio or television receiver and the Federal Communications Commission stands, as it were, at your elbow. In broadcasting the very quality of sight and sound, to say nothing of the number and nature of the programs reaching us, depends in the last analysis on regulations made by the FCC. Not one of the five other regulatory commissions affects the daily lives and interests of so many people. It is the greatest traffic cop on earth. How well or ill is he doing for us on his beat? Few know, and fewer seem to care.

This unconcern over what government does to us is, these days, widespread. Indeed, if democracy means that we, the people, maintain vigilant control over our governors, a good case can be made by those who claim that we are in a parlous state. One sociologist at least bluntly asserts that it is not the people but a "power elite" that rules among us. A brief case study of one agency of government may help us to see the price we have paid for thus being "idiots," the term applied in ancient Athens to those who showed no interest in public life.

"Power," said Lord Acton, "tends to corrupt. Absolute power corrupts absolutely." The U.S. Constitution was designed to forestall such corruption in the one quarter where, in those days, it seemed most likely to appear–government. What the Founding Fathers could not foresee, and therefore did not forestall, was the

phenomenal growth of power outside of government. In industry and business such aggregations of power tend nowadays to be more the rule than the exception. It was, in part, to control this extragovernmental power that the regulatory commissions, the FCC among them, were established. The idea was to achieve a working harmony between private enterprise and a new, emergent concept–that of "the public interest, convenience or necessity."

Four jobs

Confining ourselves to the FCC's responsibilities with regard to broadcasting, let us, first, see what it was set up to do. This takes us back a quarter century, to the passage, in 1934, of the Communications Act. The Communications Act says, in effect, that the FCC has four jobs:

- Assignment of frequencies so as to provide the fullest possible service to the public free from "interference."
- Issuance of licenses to persons competent and willing to serve the public interest.
- Policing the air, seeing to it that licensees keep strictly to the channels assigned to them.
- Determining the kind of program service to be rendered by the licensee and holding him, at peril of revocation of his license, to his commitments.

The assignment of radio frequencies had fairly well been taken care of by an interim commission before the FCC came into being. But in 1946 the FCC faced a new problem when FM, or frequency modulation broadcasting, hove into sight. Apart from clearer and finer reception, this made possible a huge increase in the number of stations that could be on the air at the same time. Many, therefore, welcomed FM as a means of introducing new blood into radio.

More stations meant more competition, more scope for "the larger and more effective use of radio in the public interest" prescribed by the Communications Act, and the prospect that radio's neglected cultural minorities might now get some attention. To the commercial broadcaster earning huge profits–in 1944 the industry earned 223 per cent of the total depreciated value of its capital assets–such a prospect was far from welcome. Initial moves by the FCC, designed to encourage newcomers and program experimentation, were strenously resisted. The FCC gave in. The radio industry acquired a handsome share of the FM frequencies in the most desirable locations and used them merely to duplicate programs already on the air on standard AM frequencies. Thus FM was stillborn.

With the advent of television, the FCC botched the job again.

Once more pressured by the industry, it improvised a scheme of allocations to get television started. Within three years the plan collapsed of inherent defects. A "freeze" was then imposed on all further frequency allocations while the FCC thought again.

Financial disadvantage

Three years later a new plan was developed. This one opened up frequencies in the "Ultra High Frequency" band in addition to the 12 channels originally allocated in the "Very High Frequency" band on which several hundred stations were already operating. Millions of viewers had bought receivers tuned to these very high frequencies. An adapter to receive programs on UHF as well as VHF was costly, and viewers were reluctant to invest another $30 or $50 for the UHF programs. As with FM radio broadcasting, this put newcomers at a crippling financial disadvantage, at least in areas, which included all the major cities in the country, where VHF stations were already operating. Put at a particular disadvantage were the educational television stations for which, under strong pressure, the FCC reserved 258 frequencies, the great majority of them in the UHF band. Since viewers were unwilling to buy adapters to see the UHF programs, the UHF stations were left without an audience. Many turned in their licenses in disgust and most of the UHF frequencies remain unused.

The years roll by, while, to all appearances, the FCC does nothing to remove this artificial roadblock to a vast expansion of variant program service to the public. This is but one of the many examples of the dilatory indecision and lack of courageous leadership that responsible critics claim to be characteristic of the FCC.

As to its second function, the FCC is again in default. Policing of the air has of recent years grown ever more lax. There is substantial evidence that many stations are not keeping strictly to the aerial highways assigned to them, with unhappy and annoying consequences for clear reception by the public.

But far more serious is the growing evidence of an absence of integrity on the part of the Commissioners with respect to the granting of licenses. Dr. Bernard Schwartz, in his book, *The Professor and the Commissions,* finds presumptive evidence of political favoritism shown by the Commission in the granting of licenses. He finds "a disturbing inconsistency in the FCC's decisions," "a tendency to favor concentration of ownership and control," and "personal fraternization between Commissioners and those they regulate."

A flagrant example of action

seemingly contrary to the public interest is that of Channel Five in Boston. In defiance of the findings of its own examiner, the FCC assigned this channel to the Boston *Herald-Traveler* Corp. This newspaper firm already owned a clear channel radio station which, as it was charged, it had used for inducing purchase of combined advertising in the papers and on the station. Prof. Louis L. Jaffe, a distinguished constitutional lawyer at Harvard University, indignantly protested this action in an article in *Harper's* magazine called "The Scandal in TV." That this is no isolated instance is suggested by the fact that in 1957 one Congressman went so far as to state in the House that "among attorneys who are practitioners before the FCC, it is now believed that a case (of granting a license) is 'arranged' rather than tried."

Concentrated power

Consistent laxity has also been shown respecting network practices which the Department of Justice has on several occasions claimed to be in violation of the Sherman Act. Indeed, despite much disturbing evidence accumulated over the years at hearings before Congressional committees, no action has been taken by the FCC since 1941 to curb dangerous concentration of power in the hands of networks. At that time the domination of RCA, which owned two of the four networks then operating, was reduced by forced sale of NBC's Blue Network.

Dr. Schwartz has also uncovered evidence of constant favors received by Commissioners from the broadcasting industry. The Comptroller General is on record as saying that it is "criminal violation for a Commissioner to receive travel and/or living expenses from the government when he had in addition received any part of his expenses from the regulated industry." Dr. Schwartz cites evidence of such criminal violation on several occasions.

Let us turn, now, to the FCC's fourth job, that of regulating the flow of broadcasting in the public interest. This matter of what programs should go out over the air, given the multiplicity of tastes, is admittedly difficult. But the FCC is charged specifically with making a determination in this matter. Back in 1946, it made a stab at answering the question. In its now famous Bluebook, it specified certain program services which every station would henceforth be expected to provide. These included many-sided discussions of public questions, reflection of the life and talent of the communities served by radio stations, and reasonably regular service to cultural minorities.

Enforcement of these regula-

tions has long since lapsed. Indeed, a recent chairman of the Commission gave public notice to the industry that the FCC was too busy with other matters to concern itself with supervising program service in the public interest. Another member of the Commission began his term of office with the bland statement that "I don't believe in government regulation."

The consequences of this general default by the Commission are writ large in broadcasting today. On television the public is surfeited with entertainment programs geared to the lowest common denominator of taste. Minor majorities and major minorities go largely unfed, except in what Edward R. Murrow has termed the "intellectual ghetto" of a Sunday when diminished audiences provide unsatisfactory bait for advertising sponsors. No one pretends that the FCC's regulatory function is anything but difficult. But it was set up by the Congress to address itself to, if not to solve, such difficulties. It has done neither. Why?

This has partly to do with the type of Commissioner appointed. With some honorable exceptions, the services of men distinguished by devotion to the public interest have not been sought. As a result, leadership and courage have all too frequently been absent, and in recent times it would appear that some Commissioners at least have stooped to venal practices. This is in part due, also, to lax supervision of the FCC by the Congress, as also to appropriations falling far short of those required to execute the huge policing task assigned to the Commission.

Contributory, also, is the dearth of informed and responsible critics. Writers of the stature of Jack Gould or Gilbert Seldes are rare, and consequently the public remains ignorant and therefore unconcerned over the operations of the two most powerful media of mass communication that have ever been. Only a handful of stations throughout the country have advisory committees to whom they can turn for guidance as to the services to be rendered to the community.

There is a Latin tag, *Quis custodiet ipsos custodes?*, which means, "Who shall keep guard over our guardians?" It is a question to which we, the people, have thus far found no answer. ■

Breaking the Sound Barrier?

MOTOR VEHICLE ACCIDENTS killed 36,700 and injured 2,825,000 people on U.S. highways during 1958. More than 49 per cent of the traffic injuries resulted from weekend accidents. Driver error caused 85 per cent of highway accidents, and excessive speed was blamed for more than 40 per cent of traffic deaths and injuries.

With the white-collar worker now a majority in the labor force, unions face organization problems

THE EXPANDING WHITE COLLAR

by Aaron W. Warner

■ ONE OF THOSE quiet social and economic revolutions, as significant as it was little noticed, established itself in unarguable terms in 1956. The number of white-collar employees, rising steadily throughout the century, overtook the number of blue-collar employees. This trend will continue at an even faster pace in the foreseeable future.

Identified as they have been with American progress toward general well-being, trade unions now have a major problem in dealing with this aspect of economic advance. Blue-collar groups make up to 85 per cent of union membership, and their numerical decline means fewer traditional candidates for union participation. If the trade union movement continues in its old pattern, it may grow smaller in absolute as well as in relative terms.

Indeed, recent membership developments indicate that the problem is immediate and not at all something that can be shifted into speculation about the future. The rate of membership growth has fallen off sharply since World War II. From 1933 to 1945 the percentage of nonagricultural workers and employees in trade unions rose from 12 to 35; the proportion has remained stationary since then. Those groups most accessible to organization, skilled workers, and production and maintenance personnel in large firms, have already been organized. Any more expansion among blue-collar groups must accordingly be made under less favorable conditions.

The unions have had only limited success in meeting this part of the

challenge. The unions made a renewed effort after the AFL-CIO merger of December, 1955, but membership increased by only 500,000 in the next two years. This was a much smaller number than hoped for, and not substantial enough to strengthen the relative position of unionism.

Among the large industrial unions, only the Teamsters continued to show substantial growth, the Steel Workers made only a slight gain, and the Auto Workers sustained a slight loss. In addition, a number of industrial unions find that their bargaining units have declined in size. The Auto Workers report, for example, that only 14 remain of the more than two dozen local unions with memberships of over 10,000.

Trade union leaders are recognizing the fact that they must turn to the white-collar workers, who now offer the greatest union potential. There are about 18 million nonsupervisory white-collar workers, many of these concentrated in large offices and in industrial centers. Only 18 per cent are organized. Of the total number of unorganized workers who are potentially available for organization, at least half are white collar.

The largest concentration is among the 8.5 million clerical and office workers, 13 per cent of the work force. These are best organized in public utilities and the railroads. In other industries, an office employee union has only 50,000 scattered members and the large industrial unions have also organized approximately 250,000. Obviously, the percentage organized remains exceedingly low.

Among the six million professional and technical workers, the largest concentrations are among teachers and engineers. Of 400,000 teachers in cities of more than 10,000 population, the American Federation of Teachers has succeeded in organizing only about 50,000. Among engineers, approximately 40,000 are organized out of a potential of at least 10 times that number. Other sections of the professional and technical workers groups are either very poorly organized or totally unorganized, with a few notable exceptions among such special groups as musicians, newspapermen and airplane pilots.

The union potential among white-collar groups is further revealed by the small proportion of workers organized in industries of high white-collar concentration. Thus, workers in government service are only seven per cent organized; in financial institutions. and in the wholesale and retail trades, only five per cent; and in the service industries, 10 per cent.

It is generally assumed that unions will have meager success in organizing white-collar workers.

But a sustained and well-directed organizing effort among selected groups of white-collar workers may produce surprising results. In the experience of European countries, the organization of the white collar frequently followed the blue collar, and a number of countries have seen their government workers, teachers and other professional and technical workers successfully organized.

The trade unions, having consolidated their position through the AFL-CIO merger, are in a strong position to move forward. In terms of size, financial assets, trained leadership, acceptance by public opinion, favorable legislation and existing arrangements with employers, the unions are probably better prepared for an organizing drive than ever before in their history.

Prejudice weakened

White-collar prejudices against unionization have been weakened. Such factors as the spread of education, the closing of the earnings gap, and the mechanization of white-collar jobs have eliminated many of the distinguishing characteristics of white-collar employment. This applies particularly to office workers in large plants.

At the same time, many blue-collar jobs, particularly in the skilled brackets, have increasingly come to resemble white-collar jobs. With the installation of new types of equipment, many skilled workers find that their job specifications now call for mental rather than manual skills. From the point of view of organizing "workers," therefore, white-collar and blue-collar employees have much in common. Insecurity of employment, impersonal relationships with employer, and arbitrary treatment by management affect the two groups equally.

There are a number of special problems in organizing white-collar workers. These are:

- The high correlation between industries having a high percentage of white-collar workers and those which contain a high percentage of small establishments. More than half of the unorganized white-collar workers are in firms with fewer than 50 employees.
- The growing concentration of married women and young people in the white-collar force, many of whom work part-time or only intermittently during the year. Approximately 48 per cent of all white-collar workers and about 67 per cent of all clerical workers are women. Married women tend to have different attitudes toward trade union organization than the traditional breadwinners, and share with younger workers a lack of first-hand acquaintance with trade union aims.
- The special aspirations and

needs of professional and technical workers as related to their professional training and status. They want some form of protective association, but they are reluctant to associate with the essentially blue-collar AFL-CIO. When they have organized, they have tended to form independent associations which combine the aims of professional associations with those of trade unions.

• Legal obstacles and employer opposition. Under the Taft-Hartley Act, professional and technical employees have been given the right to refuse inclusion in bargaining units which include production and maintenance workers. The law also excepts supervisory employees from its scope. Moreover, as technological changes take place, employers have been able to claim that new jobs are outside the definition of the established bargaining unit, or that new technical jobs carry with them supervisory responsibilities.

As in the 1930s, when the CIO came into being as a means of organizing the semiskilled workers in the mass-production industries, the trade unions once more face the task of adaptation and the consequent need for fundamental changes in trade union attitudes, program and structure. They are not trying, however, to create a new type of organization as they did in the Thirties. Instead, they are adjusting their programs to the needs of the new groups. Thus, unions concerned with organizing part-time workers have begun to give special attention to hours scheduling and raising standards for part-time employees. Wartime experience in organizing women in defense plants has already given rise to new types of union demands, like more frequent rest periods and more liberal sick leaves. Engineering unions are demanding payments by employers of professional society dues, paid time off for professional society

Blue Collar	White Collar
• With 38.8 per cent of civilian work force, no longer main group.	• With 39.4 per cent of total, now major work force group.
• Already accounts for 85 per cent of all union members.	• More than half of possible growth in this sector.
• Organizing techniques long established, "crusade" over.	• 48 per cent women, often indifferent to union principles.
• Rate of unionization, size of unorganized sector, decreasing.	• The scatter in small companies is a problem to union structure.

meetings and tuition refunds for educational courses.

The unionization of small establishments, at present a difficult and costly process, may yield more easily to a new form of organization. General or territorial unionism may prove to be more suitable for this task. Territorial unions would organize workers in a variety of industries and occupations in a given community or area. Such unions may be compared to the "general" unions in Great Britain, where they have become the largest and fastest growing trade union group. To permit this form of organization within the existing trade union structure, other unions would have to relinquish their jurisdictional claims. Substantial modifications in traditional concepts have already taken place. The territorial device of organization has already been widely used by a number of the larger unions, including the Mine Workers, the Teamsters, the construction unions and the Auto Workers.

Territorial unionism may prove to be especially attractive to women and part-time workers. The organization would be in a better position to deal with community problems. In the case of small establishments, it would relieve employees of a sense of disloyalty to their particular employer. It also has the advantage of offering permanent attachment to the union, in spite of a changing relationship to the job.

A further shift involves giving white-collar groups better representation inside the large unions. The Steel Workers, for example, have established separate locals for white-collar workers, with their own officers and grievance committeemen. The Auto Workers have worked out special arrangements within their locals to permit skilled workers, engineers and technicians to vote separately on collective bargaining and policy issues that affect them exclusively. The Auto Workers, in their National Aircraft Department, have also established an Aircraft and Avionics Engineering Council for engineers, scientists, draftsmen and technicians to permit these groups to "preserve their identification," but at the same time to associate with production workers in bargaining demands.

Even these changes, however, may not be adequate to attract all groups. The Independent Federation of Honeywell Engineers at the Minneapolis - Honeywell Corporation, for example, voted overwhelmingly against affiliation with the Auto Workers, in spite of the latter's arrangements for separate representation.

Structural changes

With the development of these new approaches and structural

changes, a considerable degree of organizing success among some white-collar groups may be expected. In this, the unions will be aided by a number of concomitant developments. The political strength of labor, as manifested in the last election, will presumably forestall adverse legislation and perhaps achieve legislation even more favorable to unions. The current attempts of the AFL-CIO to eliminate corruption and to put an end to jurisdictional feuding will improve public relations. The trend toward granting separate representation to groups with diverse interests will also appeal to many as a move toward greater democracy in unions.

Progress among the white-collar groups, however, will remain difficult. There is little likelihood of rapid expansion among the new groups because of the lack of attractiveness of the unions, which have failed to equip themselves to represent broader groups of workers. The leadership has been shaken out of its complacency, but it still has developed no positive program for attracting white-collar workers *en masse*. As Solomon Barkin, Research Director of the Textile Workers Union, has stated: "The unionists' social message has not been expressed in terms and words or with the pertinence required to bring the millions of white-collar, professional and technical personnel into its ranks."

To be expressed in appropriate terms, this "social message" must first be conceived. The lack of social purpose has been variously described as a loss of a sense of dedication, surrender to the lure of prosperity, and accommodation to a new type of full-employment environment. In any event, the message that attracted new members in the 1930s appears to have lost its efficacy. A genuine breakthrough among white-collar groups will require a new message applicable to present times. ■

Food from the Sea

AS EARLY AS 3000 B.C. seaweed was considered of medicinal value in the Orient, but not until recently have we become aware of its nutritive potential. Seaweed is finding rapidly growing use in this country as an additive for fodder and fertilizer. The plant (which exists in some 17,000 species in the oceans of the world) is extremely rich in vitamins, minerals and amino acids. The sea is the final collector of all mineral run-off from the land, a fact which accounts for the exceptionally high mineral content of seaweed. The addition of kelp meal to the diet of ranch mink increased pelt length by 1.1 inches while cutting food costs. Chickens fed a two-per-cent kelp diet have a lower mortality rate and lay larger eggs.

Norbert Wiener

Professor of Mathematics
Massachusetts Institute of Technology

Man and the Machine

Q *Prof. Wiener, when your book, "The Human Use of Human Beings" was first published in 1950, you predicted that the introduction of automation would result in a considerable displacement of labor in manufacturing. Manufacturing employment trends since then seem to show that you were substantially correct. Do you believe that we are faced with a declining demand for labor in manufacturing?*

A When you state that what I said in my book has been realized, this does not mean that it has been realized according to a time schedule. In some ways we have gone slower than I predicted, in some ways quite as fast, and in some ways considerably faster. There has no doubt been a decline in the demand for "low-level" labor–sheer physical labor and labor involving only minor decisions. With the introduction of some automatic machines, much low-level planning is already being partly transferred to the machine.

Q *Is this something altogether new?*

A No, it is not. After all, factory employment has been the normal occupation of the human being for only a century and a half. We cannot take it for granted that the population will in the future be largely employed in factories. That is ceasing to be so and had begun to cease to be so even before the present age of automation. Electrical power stations, for example, were practically automatic, with very few people working in them, even before this period began, and this trend has been

accelerated by the introduction of automatic machinery. In running a power station, for example, one of the jobs of the engineers used to be to switch in the different generators when they came into phase and frequency with the general level at the bus bar. This required a certain amount of rather special skill. Today, this switching process is handled automatically by machines. This sort of thing can happen, is happening, and will happen in other factories. There *will* be labor displacement. How to occupy the people who are displaced is not merely an economic problem; it is a social and moral problem for the entire community.

Q *But so far automation is still limited to mass production.*

A Up to a point that is correct, but the boundary between individual production and mass production is being constantly shifted. Machines have made it easier to put a permanent record of what the machine is to do into action. Now, using a stamping machine to stamp out an automobile body is cheap for each operation, but the dies that have to be made are very expensive. These familiar mass-production methods are, therefore, limited to cases of really enormous production. On the other hand, the punch tape that is necessary to actuate an automatic billing machine is relatively cheap to make. Thus, we can apply some of the techniques of mass production not only to quantities which run into the thousands or millions of similar parts, but also to much smaller batches. This is actually being done successfully in the airplane industry.

Q *The 19th-century novelist Samuel Butler spoke of the machine dominating us. Are we already capable of creating such machines?*

A In a sense, this possibility has existed ever since the beginning of mass production. Even the 19th-century factory of Butler's day, working under free competition, tended by its own productive capacity to dominate and direct the consumption process. That is still true today—indeed, even more so. But the earlier machines did not require us to *interpret* what they would do. The mechanical consequences of using them were more or less obvious, although the social consequences were not. Today *neither* the mechanical nor the social consequences are fully predictable. When we require a machine not only to follow a given program, but to set the program by more general principles, we may not

fully know either the details of the particular program being carried out nor its consequences. Thus, what Butler said was figuratively true in the 19th century; it is literally true today.

Q *Are there any theoretical limits to what a machine can do compared to what a man can do?*

A We must be careful about what we mean by theoretical limits. The mathematician John von Neumann has shown that it is theoretically possible for a machine to build a more complicated machine than itself. Thus, there is no absolute reason why man cannot build a machine that will be more complicated than himself. Having made such a machine, however, his problems with it will be very much like his problems with his fellow men. Moreover, a complicated machine like that would be extremely expensive; keeping it loaded so that it is really performing economically is even more expensive. When we come to a machine approaching the complexity of man, we shall probably find that man is a cheaper machine than the one we have made–both cheaper to make and cheaper to use. Thus, there will be economic limits to the probable extent of automation. But these limits will be flexible and will change with the development of our techniques.

Improve the machine by higher-level programming

Q *What do you mean when you say our problems vis-à-vis the machine will come to resemble our problems vis-à-vis humans?*

A So far, we have developed machines which play checkers and chess in a rather simple-minded way. They are what we call first-order machines. Now, you can't play chess or checkers with a machine or a human being without learning something about the kind of "personality" you are playing with. If the machine always makes the same moves in the same situation, you will soon be able to take advantage of that fact and beat it. But let us suppose that the machine in some way stores up a "memory" of previous games you have played, and ascertains on the basis of your past performance what kind of policy would be most likely to be successful. Soon you would begin to feel that the machine had developed a kind of personality–that is, a capacity to react flexibly to your moves. Thus, as we improve the machine by higher and

higher level programming, our problems vis-à-vis our machine will be more and more like those we face when playing a human being. The same is true with other kinds of machines.

Q *If, as you say, a machine can be built which is superior to man in more and more spheres, what, if any, peculiarly human intellectual functions is man actually left with?*

A This is not a question that one can answer precisely. As the machine gets better and better, it is obvious that it will make a progressive invasion of human functions. It is also obvious that beyond a certain point, we shall lose our human advantage, although what that particular point will be it is impossible to say. On the other hand, there will come a point where the best machine we can use will be the human being. In its ability to work with ideas that have not yet been fully formulated, the human being is by far superior to any machines that have yet been made or that are in prospect. When we know perfectly what can be done, a machine can probably do it better; when we have to seek our way, I doubt it–at least for a long time.

Q *But you do not exclude the possibility?*

A No, I do not. I do not expect that possibility to occur, but I would not be willing to set precise limits.

Q *Do you believe that the growing use of increasingly complex automatic machinery will make higher level human planning even more important?*

A Yes, I do. To a certain extent simple allocation problems are programming problems, and we have already reached a stage where programming can itself be, to some extent, mechanized. But as we come to the higher levels of decision-making, this becomes more difficult. Eventually (and I think this will be fairly soon), we shall reach a point where the highest level of programming will be too complicated for the economical use of the machine–that is, where the load will not be steady enough to make it pay. Thus, instead of decreasing the responsibility of planners and organizers, we shall greatly increase them, for we shall make it possible for them to do things which they would not have thought of doing before.

Q *Do you believe that this greater need for planning, in order to make maximum use of these machines, will force society to re-examine its fundamental social and political values?*

A It will force society to re-examine them very fundamentally. The assumption that some of us make, that laissez-faire or free competition will automatically iron out the problems of society, becomes less and less valid as the means for competition become more powerful and the consequences of mistakes more serious. The burden on the planners will thus become increasingly difficult and will require more and more intelligence to handle them.

Regulation will become more and more necessary

Q *Well, how are we going to preserve liberty in such a highly planned, machine-coordinated society?*

A Regulation will clearly become more and more necessary if real liberty is to be preserved. The units of competition will become so large that an individual unit may have the capacity to produce for an entire industry, if it has to. Under such circumstances, the idea that free competition is beneficial will be much less meaningful than before. Thus, liberty in the future will rest less and less on the ability of the individual to exercise absolute freedom–and particularly in his freedom to use machines as comprehensive as the ones we have been talking about.

Q *Does this imply a welfare state within the framework of a new concept of liberty?*

A We simply must get rid of the bad name which has been given to the welfare state in recent years. We can prevent ourselves from being dominated by the machine only if we define the social goals of the community at large and consciously plan for the attainment of these goals. Modern society can only survive through the welfare state. However, I am not dogmatic on whether it can survive even under these conditions.

Q *In what way can the planners create conditions which will make our survival more probable?*

A The first thing to do is to make people, and not productivity, our prime consideration. Our capacity to increase productivity has been so

vastly–and often irresponsibly–expanded in the last century that it need no longer be the primary objective of our economy. Productivity is still important, but creating a better world in which people can enjoy that productivity is even more important.

Q *What specifically are the responsibilities of those who are not involved in social planning? How can they control the controllers?*

A "Who guards the guardians?" has always been a serious problem. Certainly, the sort of public opinion that can be swayed one way or the other by spurious propaganda and advertising methods cannot be counted on to protect us from our protectors.

Q *Isn't it true that in modern society–even in democratic societies–it is increasingly possible for the central control organizations of society (government, big business, and so on) to effectively condition the attitudes and response of the governed?*

A It is possible, and it is extremely dangerous, not only for the existence of society as a whole, but even for the existence of the organization which is trying to condition the responses of the governed.

Q *Can you give us an example of what you mean?*

A Certainly. It is like driving a car and, instead of seeing where you are going, somebody puts a picture in front of you. Clearly, it won't be very long before you hit the curb. This is true in other spheres. Facing the contingencies of life depends on adequate and true information. The more that information is conditioned by the people who are doing the controlling, the less informed they themselves will be and, therefore, the less they will be able to meet emergencies. In the long run, such a system of mutual misinformation can only lead to catastrophe.

Q *In other words, the survival of society may come to depend on the sense of responsibility of the governed?*

A That is correct. It is quite clear to me that the survival of the state as a going institution (or going "machine") depends upon a good "feedback" from the governed to the policies of the governors.

Q *Thank you, Dr. Wiener.* ■

WHAT'S NEW ABOUT INNOVATION?

That innovation is tremendously important in our modern economy is undisputed, but we have not yet defined just what it is

by William Letwin

■ TECHNOLOGICAL innovation is no longer the great bugbear that it was during the last two centuries. The fear of mechanization, which led workers during the 19th century to wreck factories and invent sabotage, has been stilled. Automation has often been introduced with the aid of unions rather than against their blind opposition.

The root of the problem has not disappeared. Innovation continues, or, as most people think, is steadily speeding up; and it requires adjustments in economic organization. But somehow it no longer oppresses people's minds as it once did. There is less talk of technological unemployment. More broadly, there is less feeling that innovation brings about any profound reorganization in industry. Fifty years ago the introduction of the automobile put an end to the carriage industry. In our day, the introduction of the jet engine did not hurt the industries that manufactured internal combustion engines. The airplane and automobile manufacturers, far from waning, simply added a new line to their range of products. What accounts for this capacity of modern industry to adapt quickly and successfully to technological innovation?

This question, so innocent on the surface, is nevertheless treacherous. It rests on the assumption that innovation is increasing and that industries no longer perish under the impact. But unfortunately neither "innovation" nor "industry" are easily identifiable or measurable.

It is a commonplace that a great deal of innovation goes on in the American economy. It is generally believed, moreover, that new products and processes are introduced more quickly now than ever in the

past. These beliefs persist even though they are not substantiated by statistics. Indeed, it is very difficult to imagine what sort of statistics could possibly substantiate them, for "innovations" are, in the first place, difficult to identify and even more difficult to count. How new and different must something be to qualify as an innovation?

Consider the typewriter of 1930 and the changes it has undergone since then. The keys were constructed of metal rims fitted with flat celluloid windows; they are now molded of concave plastic. The body was built of heavy stock; now it may be exceedingly lightweight. And power, once suplied by the typist, may now be electrical. Which of these changes ought properly to be called an innovation? There is no formula to distinguish between innovation and mere improvement. On the one hand, the colored, portable electric typewriter still goes under the name of "typewriter"; on the other hand, what was once called a typewriter has been changed into something with color appeal, and which is portable and electric. Now, which take precedence, the similarities or the differences?

Perhaps those who are vexed by the problems of definition may respond that, quibbles aside, an innovation has certainly taken place whenever a new product is first introduced. This criterion, however, would be more comforting if one could identify "products." Are shoes with laces and shoes without laces the same or different products? You may say they are, in both cases, "shoes." But this puts too much weight on the vagaries of language, for the unlaced object often has a name of its own, such as "moccasin," "loafer" or "sandal"–and by the simple test of language a "sandal" is obviously something other than a "shoe."

Economists, for whom the proper identification of products can be a serious affair, have devised a very precise way of testing the economic similarity between two physical products. They measure the cross-elasticities of demand. They ask, for instance, how many more brown eggs will be bought in a given market if the price of white eggs rises ever so slightly. If consumers stop buying white eggs altogether and buy only brown eggs, then obviously the consumers regard white and brown eggs as perfectly interchangable, or, in other words, as making up a single "product." But it is clear that what the economists have done is simply to find out a way of testing whether the economic behavior of particular groups is consistent with their use of language. Economists using this test would conclude that for most consumers of typewriters, an electric typewriter is far from being the same

product as a standard or portable typewriter, but that the similarity between electric and standard is greater than that between the electric and the portable typewriter. By this test, however, products that differ in no physical respect except for the labels they bear are also different products.

Frustrating difficulties

In short, the precise test suggested by economists discriminates altogether too much for comfort. According to it, almost any change, no matter how superficial, is enough to create a new product. Every detergent which is marketed under a new brand name would have to be considered an "innovation," and this usage would obviously violate the meaning that we generally assign to the word "innovation." There does not, unfortunately, seem to be any other rigorous principle that can help to identify innovations.

If one were to bypass the problem and accept an arbitrary standard for identifying "innovations," then the work of counting them would present frustrating difficulties of another sort. The chief perplexity arises in assessing the "importance" of various innovations. Atomic energy is obviously a weightier innovation than the eye-level oven, but how much weightier? And is it more or less "significant" than the jet engine? There is no obvious and rigorous standard for comparing the importance of particular innovations, and in its absence a mere headcount seems the only way left. But this is clearly misleading. To compare the developments in two different years and say that innovation took place more rapidly in the one which experienced three innovations than in the one which had two is obviously perverse, if the three were "minor" and the two "basic." Yet if we cannot measure the profundity of innovation, how can we meaningfully say that more innovation is taking place now than in the past?

Most of the statistics that are commonly called in as proof suffer from the flaw of being mere headcounts. The number of patents issued is a very imprecise measure of innovation, so much so that it is worthless. Many patents, as everyone knows, protect trinkets and gadgets. Undoubtedly, inventions of this trivial nature account for a greater fraction of all American patents now than they did a century ago. It may well be, therefore, that if each patent were weighted according to its "proper innovative value"–whatever that might mean–the total value of the many patents issued in any year would be far lower than that of any preceding year. Besides, not all inventions are patented.

Similar defects invalidate the

argument from research and development funds. Total expenditure on research has certainly been increasing in the United States. Much of it, however, goes to discovering new ingredients for cosmetics, modern finishes for nursery furniture and shrewder advertising appeals to be used by merchandising concerns. A large part of the expenditure does undoubtedly go into deeper research, and more and more is said to go into "fundamental" or "pure" research. But it has by no means been established that any systematic relation exists between the amount of "important" invention or innovation and the amount of money spent on research.

Anxious for new things

As Prof. John Jewkes and his associates have recently shown, an astonishing proportion of what certain experts identified as the fundamental innovations of the 20th century were produced by amateur inventors working over kitchen sinks and in their garages or toolsheds. All that the rise in research and development expenditures can really prove is that we are much more anxious to have new things than people once were. In short, we cannot even approximately measure innovation.

Defining an "industry" is just as difficult as defining a product." If one considers a sufficiently broad scheme of classification, the "industries" it distinguishes are universal and eternal. "Food," "clothing," "shelter," "transportation," "communications," "personal services"–in every community at all times, goods and services in each of those categories were being produced and always will be. Those industries were never born. No innovation can possibly make them disappear, unless it changes human beings into something very different from what they are now.

Only when industries are classified fairly precisely is it possible to identify extinct industries. By fine standards, there is an extinct industry for each extinct product. Once whalebone ceases to be used for corset stays, then the whalebone corset-stay industry is no longer. If "product" is given an exceedingly fine definition, then we must conclude that every firm, because it is different from other companies, gives a certain minimal uniqueness to its product. Thus each commodity bearing a brand name of its own corresponds to an industry that consists of the single firm that uses that brand name.

We thus have two extreme and opposing classifications of industry. The one which forces us to define industries in broad terms like "food" or "transportation" means that these industries can never possibly disappear. The other classification requires us to

say that an industry disappears almost every time any company goes out of business. There does not seem to be any middle ground that deserves a better claim on our affections than any other.

As neither *innovations* nor *industries* can be satisfactorily counted, we cannot draw any conclusions about the survival of industries in the face of innovations.

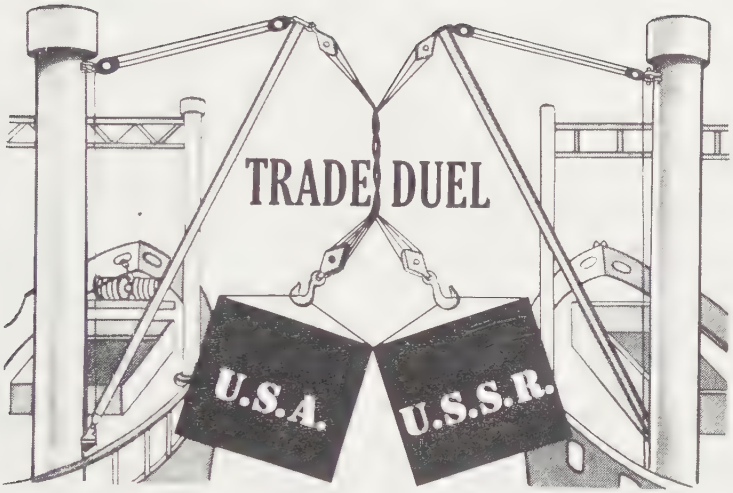
It is true, however, *that business firms now find it useful or convenient to introduce commodities that consumers–and perhaps the producers themselves–will regard as innovations.*

Firms are readily identified and frequently enumerated by various private and public bodies. It is not difficult to discover what firms regard, or would like consumers to regard, as new products. The firms themselves are at great pains to inform the world at large of any novelty about their products. Business in the United States today generally tries to persuade consumers that it constantly *changes*–which is understood as synonymous with *improves*–the products it sells, as well as constantly adds "new" ones.

We are so used to this behavior that we are apt to lose sight of its novelty. For a long time, after all, firms took visible pride in asserting that they had not changed. An element of this traditionalism still persists, mainly in the stagnant branches of industry, among concerns, for instance, that announce proudly that they are still located in their original factory, or that the present owner is a direct descendant in the male line of the founder. But on the whole, except for these sentimental eddies, the current has reversed itself altogether. The one sense in which innovation can be safely said to have become more important in American economic life is that the taste for the new–which has been characteristic of Americans ever since the beginning–has by now quite overwhelmed the taste for the familiar. ■

Mealtime U.S.A.

A SURVEY by Market Research Corporation reveals some interesting mealtime habits. The average American housewife serves 45 per cent of the items in her menu repertoire within one week and 60 per cent within two weeks. The average amount of time spent in the preparation of meals shows that most menus are not thrown together at the last minute. Only six per cent of the evening meals are prepared in less than 15 minutes; 27 per cent require an hour to an hour and a half; and 36 per cent require 30 minutes to an hour. Breakfast-time comes between 6:30 and 8:30 a.m. for 70 per cent of the population, while an early-rising group of 11 per cent breakfasts before 6:30 a.m. A greater variety of items is served at breakfast than at any other meal.



While foreign trade is a small part of our economic activities, it has great importance in the cold war competition

by J. N. Behrman

"We value trade least for economic reasons and most for political purposes." –Nikita S. Khrushchev

"Trade is a two-way street." —Dwight D. Eisenhower

■ IN RECENT YEARS our exports have totaled slightly more than $20 billion annually, about five per cent of our national income. It is estimated that Russian exports have been about $4.5 billion a year, roughly three per cent of the Soviet national income.

Great Britain's exports, at more than $9 billion annually, are 20 per cent of her national income, a proportion typical of her days of 19th-century power. The world trade-and-power situation has thus changed radically, as power has shifted to two great nations who place only a light dependence on trade. What does this mean in terms of the continuing rivalry of the United States and Soviet Russia?

The relationship between trade and the flag is complex. Historians have argued about capitalistic guilt in the creation and control of the great colonial holdings. The West is now attempting to make certain that it does not lose the friendship of the colonial countries because of their earlier treatment. Yet it has become obvious that the underdeveloped nations need many

of the things that the old imperialism had once insisted they have, whether they had then wanted them or not.

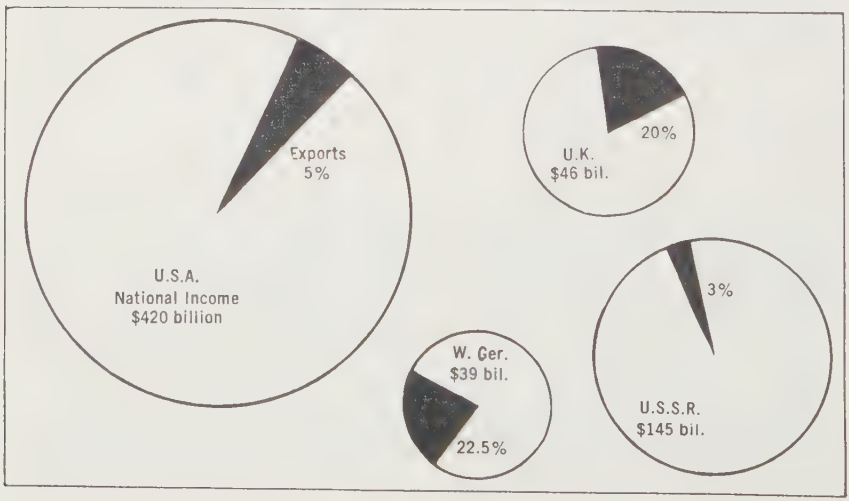
Bruised relations

On the other hand, the uncommitted nations are important to us, and Soviet Russia has sharpened our interest in them by attempting to penetrate several of them. In narrower economic terms we need to import a few essential materials from these countries and we find our export trade, if not centrally important, a pleasant addition to national well-being.

It is obvious that good relations are bruised when we restrict the entry of foreign products. We have defined certain industries as essential to the national defense, a semantics that is used to justify tariff protection against Swiss watches, oil imports and heavy electrical equipment from Britain. Similar arguments have been attempted for wool, wood screws, lace and embroidery, lead and zinc, clips and fasteners, porcelain and organic chemicals. Most of these efforts have failed either because the national defense reason was not accepted or because certain imports aided our economic growth.

Our tariff policies have thus weakened our diplomacy, as Russia defies us to out-trade her in the rest of the world. She claims she will be better able to serve the needs of the developing countries, and she has made it clear that her economic power is subservient to her political objectives. Russia's

Comparative National Incomes and Export Trade (1957)



bilateral trade deals were at a value of $300 million last year, and she has extended loans totaling $2 billion. The credits have financed projects like steel mills, which make good propaganda in recipient countries.

If we observe the contrasts between American and Soviet policy, we can see the advantages and disadvantages of our world trade position. The United States and Soviet Russia operate from the same departure point in terms of a small ratio between trade and national income. Neither country depends heavily on trade. On the other hand, this means that trade alone cannot support the broad objectives of economic diplomacy; there simply is not enough of it.

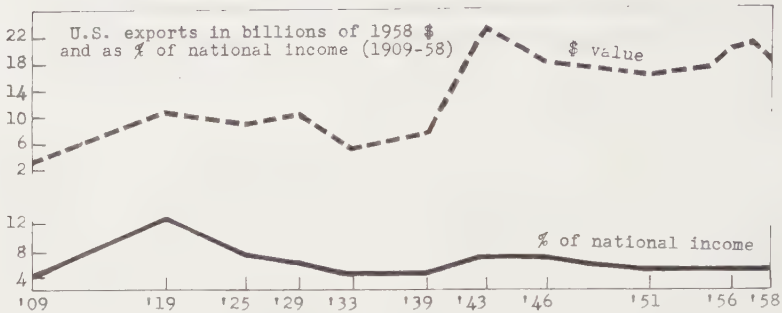
Private trade

The trade, moreover, is carried on by private business, which is not easily controlled under democratic capitalism. The government cannot tell an exporter to give up his business just because it might not fit into its diplomatic objectives at the moment. It does, in point of fact, do this in the sector of strategic materials, but the demands of world policy are much broader than those few materials.

Soviet Russia, however, takes advantage of the situation more directly than we do. If its trade is too minor to blanket the world, it is also too slight to make the Soviet economy suffer when it endures revisions dictated by political policy. Thus Russia can maneuver drastically in the area of world trade, picking precisely those points where it can exert maximum pressure. We observe Russian trade and aid going to the uncommitted "hinge" countries like India or Egypt, where a shift in allegiance could make drastic changes in world power positions.

To meet the Russian challenge, a positive trade policy is needed. We can accomplish more by increasing than by restricting trade, and we should take every opportunity to affirm our belief in the efficiency of private enterprise. Yet many American businessmen hesitate to enter the less-developed areas where direct American aid has gone. This assistance cannot do the job alone; the United States does not have that much national wealth to give away, and a developing country must continue to expand its economy on a realistic, commercial base. It needs basic industry and trained personnel, and it can get these only if it has the economic base and attitudes to justify the entrance of private capital.

Our government must recognize the fact that doing business with such countries is a "high risk situation." If, nevertheless, foreign policy requires that we trade with them, then private business must be encouraged by frank subsidies.



Value of exports 1909 to 1958: the share of exports in the U. S. economy has traditionally been very small. Only once–in 1919–did it reach 12.7 per cent. Since World War II, it has been at a steady five to six per cent.

If we want extra values from trade, we must pay extra for them.

What should we do?

The first essential is an integrated government program to make foreign business pay better for American businessmen. Important elements would be direct subsidies, tax incentives, long-term government loans, assistance in establishing relations with foreign governments and businessmen, and maximum cooperation by the various departments of our government like State, Commerce, Justice and Treasury Departments.

In some areas the government will have to act as the commercial pioneer, helping to establish the infrastructure that trade needs. In the United States it should work with groups like the Chambers of Commerce, the National Association of Manufacturers, the National Foreign Trade Council and the American Management Association in sponsoring conferences on overseas business. These groups are already engaging in such activities, but the government could help them reach the smaller businessmen who have been staying away from foreign risks.

We should also concern ourselves directly with the people who would participate in foreign trade. Greater reliance should be placed on our educational system to prepare people to deal with international problems. We should strengthen foreign language courses, for example. Only a few thousand students are learning Russian, while Russia trains hundreds of thousands in English and significant numbers of her youth

in the languages of the underdeveloped countries. If American business wants to deal with the rest of the world, it must staff its foreign operations with executives trained in the relevant skills.

But an awakened group of "international executives" in the United States may still be stifled by the difficulty of getting adequate information on promising projects abroad. Although the U.S. Department of Commerce has made several country studies on the conditions of investment abroad and provides day-to-day information on opportunities for investment and trade, it cannot make the type of analyses which business requires.

To fill the gap, there should be some private organization–composed of experts in business analysis–that would make studies of individual opportunities abroad. The studies would be made of the possibilities of a fertilizer plant, a cement plant, or a shoe factory, for example, in various countries. Similarly, opportunities for private technical assistance should be analyzed and publicized. These examinations could best be made by a group of banks or private business consultants.

It would be unfair to accuse our government of failing to do anything in terms of international economic policy. It supports many praiseworthy programs like the Development Loan Fund, the International Cooperation Administration and the World Bank [see CHALLENGE, February, 1959], but it has not integrated the various fragments into a cohesive operation.

Currently the State and Commerce Departments are urging greater activity abroad, while the Treasury maintains a tax policy that businessmen claim discourages their foreign efforts. Our antitrust policy, as interpreted by the Justice Department, also makes matters difficult for Americans dealing with the cartel-like situations found in so many foreign trade areas.

We can achieve a superior maneuverability in the economics of a foreign policy. If our government lacks the domestic controls of a Communist regime, it has a tremendously superior reserve of wealth with which to operate. An effective policy should begin with the recognition of the fact that government and business are partners in a vast undertaking. ■

Not So New

THE FIRST plastic material was created in 1868. It was a synthetic substitute for ivory, which was becoming scarce, for making billiard balls and piano keys.

the rebound

Once more the American economy has displayed a happy capacity for quick recovery from recession doldrums. Leading the parade of good news is industrial production, the index for which at last reports hit 147 (1947-49 = 100), exceeding the prerecession high of 146. Even if some of this increase is ascribed to the current heavy demand for steel, with inventory building pushing the steel mills at 94 per cent of capacity, the industrial picture still looks bright. Output of all durable goods continued to move upward and is now virtually back at its record level of December, 1956. Production of nondurable goods was doing even better, exceeding the prerecession high. And in spite of substantial productivity gains in manufacturing, the employment figures finally began to reflect improved business conditions. Unemployment, having declined by 400,000 between February and March, declined by almost twice that during March and April.

grounds for optimism

First quarter corporate earnings show a 46 per cent increase over the first quarter of 1958, and record highs will be registered this year. As a consequence, capital spending for 1959 will be at least $2 billion more than last year, and plans of just a few months ago continue to be revised upward. This optimism was matched point for point by the consumer. With personal incomes at an annual rate of more than $370 billion, and prices

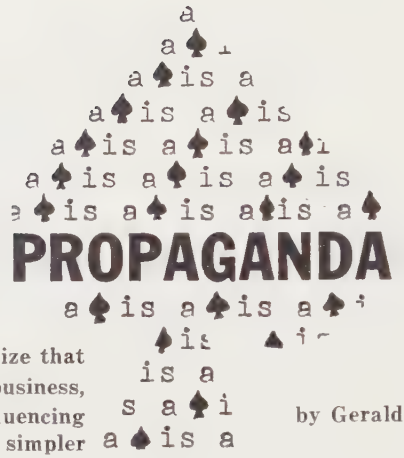
virtually stable, installment credit expansion continued apace. Automobile credit accounts for about one-half of the increase. Cash and installment purchases of goods other than autos now claim the same proportion of consumer income as before the recession.

residual problems

Yet, in spite of all this good news, the receding tide of the recession has left many starfish on the economic beaches. For one, the recovery figures bring us up to about where we were two years ago, except that we have eight million more people to provide for. In effect, this represents a net loss that will have to be made up in the future. The brightest hope that this can be done quickly is our current high rate of productivity–now six per cent ahead of last year. But such productivity gains have been concentrated in manufacturing, precisely where most of the unemployment is and where substantial rehiring will not occur. Also, it is unlikely that the current respite of price stability can be maintained for the remainder of the year. The cost of living index has been stable largely because of lower food prices, while other prices continue to climb. Price stability, therefore, has been highly selective.

new and louder

Thus, as summer approaches, some basic choices are in the offing. Rising demands on goods and money, and the prospect of continually higher labor costs will result in higher prices all around by fall. Whether the consumer's bullishness can be maintained under such conditions depends on where unemployment will stand in September. Any more than three million unemployed would be a dampening influence. The foreign consumer of American goods is already resisting our prices, as reflected by continuing declines in exports. And markets once lost, particularly in Europe, will be difficult to regain. It would seem, then, that the current recovery will not only have to play old tunes louder but also come up with some new arrangements for the 1960s. ■



CALL IT PROPAGANDA

If we could frankly recognize that we are in the propaganda business, then our task of influencing world opinion would be simpler

by Gerald L. Steibel

■ LIKE IT OR NOT–and there are many Americans who do not–this country is in the propaganda business and will stay there until that improbable day when strife shall have ceased to exist among nations. There never really was a choice; the psychological dimension had come into world affairs long ago, and political realities had become transformed from what *statesmen* thought was real to what *the people* thought was real. When the debate in this country shifted from "Should we make propaganda?" to "How can we best make propaganda?" we had taken a long, sophisticated step toward maturity.

For a people who make propaganda reluctantly and with all the healthy doubts spawned by democratic value commitments, the United States has an amazingly large variety of ways for attempting ideological persuasion. There is an official United States Information Agency which speaks in the name of the American state, but it is almost lost in the sprawl of other voices which project this nation abroad. Radio Free Europe and Radio Liberation overshadow USIA's Voice of America in Eastern Europe in what Lucius Clay said is a job that only private groups can do. The Armed Forces Network has found itself with more German and Japanese eavesdroppers in its audiences than American servicemen. The most successful of USIA's radio operations, Berlin-based RIAS, was wafted to its success when the Red propagandists tried to sweep Berlin into their monopoly bag.

Within this proliferation there is also a grand assortment of even less premeditated propaganda artifacts. The International Cooperation Administration makes its propaganda as an afterthought to its technical work, and the State Department has a happy bill-paying arrangement with the Institute for International Education, in which students and professors are exchanged with their counterparts in other countries, and no one mentions the word "propaganda." "Propaganda" is absent, too, in the word and organizational wars between the Communist World Federation of Trade Unions and the International Confederation of Free Trade Unions, whose leading constituent is the American AFL-CIO. Add the People-to-People movement, the women's and youth clubs that bring service wives and teenagers together with their local opposite numbers at overseas bases, the myriad of political "statements" destined for repetition everywhere, and the work of businessmen, Senators and other travelers–and one sees a propaganda effort of formidable proportions.

All this inspires the question: How is this chorus of voices directed–or is it directed at all? We have here a complex of agencies, some of which are public, some private, some conscious and deliberate propagandists, some repudiating the term vehemently. All grew at different times under different conditions and for different reasons. Each jealously guards its right to set its own aims and methods–that is to say, its policy. Can any nation afford so many voices orchestrated so casually?

Some of the centralizing trends current in public administration have invaded propaganda. USIA's information input operations are part of the "intelligence community" confederated under Central Intelligence Agency leadership, and its director sits with the National Security Council when the agenda concerns his office's area of interest. And one of the functions of the NSC's Operations Coordinating Board is to insure that all government units speak alike when they speak. But what of the vast activities of the groups not subject to these controls and the danger of an aggregate picture of chaos and paralysis?

Some of the amorphous propaganda creations of the past have shown that the danger was real enough. Walter Lippmann and Arthur M. Schlesinger, Jr., have pointed out that the Voice of America was really the voice of the incumbent Administration only and that America could not and should not have but one voice. These and other criticisms, some thoughtful but others founded on nothing more than penury and fear of

ideas as such, moved the Administration to action. In 1953 the Administration adopted, on the recommendation of a Presidential study committee, a charter for USIA which distinguished "information" from "propaganda," binding the Agency to the first to the exclusion of the second. Since the primary canon of propaganda is that news and fact make the best propaganda, the distinction has scarcely helped dispel the confusion.

A fact of life

The Communists have no reservations about embracing the term "propaganda" or using it to cover vast ranges of activity. In their countries, all of the disparate persons and groups enumerated above are part of the apparatus of the Party Agitation and Propaganda Departments. In other words, the propagandists are not afraid to call themselves propagandists. While the Communists may have turned this principle to what we consider immoral purposes, the principle itself recognizes one of the neutral facts of modern life. The frank admission that we, too, are making propaganda need not oblige us to give up our standards of veracity.

By designating everyone with a propaganda effect a propagandist, the Communists have been able to write propaganda policies pitched to major-scale efforts. Since discipline supplies the cohesion within those efforts, policy has a clear line from intention to final impact upon the audience. It also acquires the attributes of *will*, which, as Henry Kissinger (the expert in cold war military and foreign policy) has insisted, is the mainspring of policy. But will cannot function at its best where the conception of propaganda is rejected.

The American democracy cannot and ought not try to emulate Communist discipline, but it must come up with an equivalent if it is to have the will necessary to compete successfully in the modern struggle of ideas. We must, moreover, accept the fact that an *unfavorable* image of this country is not necessarily an *untrue* one. Propaganda policy often fails because United States policy itself is at fault. In Latin America we are accused of practicing economic discrimination–say, against Uruguayan wool–while proclaiming the virtues of trade. Black Africa sees us as racists, and the East European captive peoples are disillusioned over our failure to liberate them. The problem, to cite Kissinger again, is often the machinery of national policy-making. No propaganda can overcome the fundamental disabilities of national action.

Propaganda policies follow national policies because they must.

Even when we lack a central direction of propaganda, a certain coordination is necessarily achieved. Whatever the shortcomings of national policy, the international communicator–propagandist–has virtually no alternative to adhering to the established policy of the country in which he is based. To be critical of one's base country may be an emotional relief, but it is a luxury which must be paid for by loss of standing. For example, emigrés in all "liberation" radio operations in the world have found that to dissociate themselves sharply from their hosts' policy creates the impression among their listeners that theirs are voices crying in the wilderness.

Eager ears

Propaganda policies have, however, probably helped mitigate some of the adverse effects of unfavorable national policies. Most surveys made of Communist-ruled peoples, difficult as they are to substantiate, agree that the common people, while disappointed in their continuing subjugation, are intensely eager to know everything about life in the United States. When, in response to Western radio competition, the Song of the Tractor yielded to jazz in the programming of Iron Curtain countries, and American books began to appear in their translations, even the rulers were conceding the attraction of this country to its people.

Finally, while there is a good deal of misinformation about the United States circulating abroad, people give evidence of understanding the difference between the appearance and the substance of American democracy in action better than we sometimes assume. One of the jobs assigned to propaganda is to explain American political behavior to people who tend to see us as unstable and irresolute because they must interpret on the basis of the only standards they know.

Constant emphasis in broadcast and print upon the daily, unspectacular side of our life and hopes has borne fruit in an appreciation by others that the partisan clamor of political life will dissolve in any crisis in foreign affairs. These explanatory programs lack the drama of headline news, but they prepare the ground on which the news is better understood when it happens, and their place in the propaganda tool kit seems secure. Through such long-range work, we have been made to appear less of the saint and less of the villain, with the result that we have made net gains in the confidence of others.

The consequences, then, imply that against the case for confusion and disorganization there is another case for agreement and coherence. The coexistence of the two cases need cause no surprise.

If the essence of our freedom is its unstructured give-and-take within a context of common values, there is no reason why a good part of that essence cannot be communicated without creating chaos.

It is propaganda's assigned task to deal precisely with essences, and, since most Americans would agree that they are united in opposing aggression of all kinds abroad and in demanding social and economic progress at home, propaganda has both the right and the duty to assume that they mean what they say. The policies which are designed to accomplish these goals have, over the past two decades, suffered impairment when leaders have contradicted other leaders, and when they have been mistaken in their calculations as to what they could achieve with the resources available.

No one knows better than the propagandist the cost of these impairments. But if propaganda were not able justifiably to put the daily setbacks into a more durable perspective, the indictment would be against the nation and not the propagandists.

Communist propaganda seldom is menaced by these difficulties; but when it is, the result is much more disastrous because perspective is the antagonist of rigidity. The Chilean Communist party, for example, was hit harder by Khrushchev's de-Stalinization than by all the repressions of the government in the days of outlawry. Responses by "uncommitted" peoples showing a growing willingness to rate democratic consensus, for all its pangs and drawbacks, over Communist "line," and to believe that the vulnerabilities of multiple factions are preferable to the strengths of disciplined brutality. For this, propaganda may claim a reasonable share of the credit.

Word-mountains

Therefore, on a given day, when there are no serious policy snarls, most of the verbalizers–propagandists–will be projecting the same image in a more or less coherent way. The propagandists on the public payroll may work from a mimeographed guidance issued by authority within the government. Those in the private agencies will write their own. The propagandists-by-effect, tourists, exchange students and businessmen, will react by other criteria. But the dissimilarities will be outweighed by the similarities because of the discipline exerted by the news itself. Propagandist, scholar, journalist–and even intelligence officers sometimes admit they belong here–rely on *The New York Times*, the news tickers, U.N. publications, open scholarly research, journals of opinion and a hundred other resources. And anyone who has ever had the task of going through

these word-mountains day after day will testify to the remarkable amount of agreement among all of them as to the facts.

This is not to imply that there are no decisions to be made about different interpretations or emphasis. But there are working rules in this game just as there are in any body of experiences. Nobody trumpeted the Supreme Court decisions on desegregation because all knew that those decisions also advertised the fact that discrimination still existed in serious form, and that the future would surely bring new troubles. Experience with audience reaction dictated a propaganda that dealt chiefly with progress under the democratic order, and the propagandists did not have to be pressured into line.

At the same time, it can reasonably be hoped that the students visiting an American college in California, the laborers working alongside American technicians in Saudi Arabia, and the local ladies of Nousseur, Morocco meeting over tea with American service wives, were being told substantially the same thing.

The answer to the problem, therefore, is not to stop making propaganda or to erect an American Agitprop which will enforce its own thinking and expression upon everyone. It is, first and above all else, to achieve action with words, and, second, to eliminate Ugly Americanism wherever it rears its inept head.

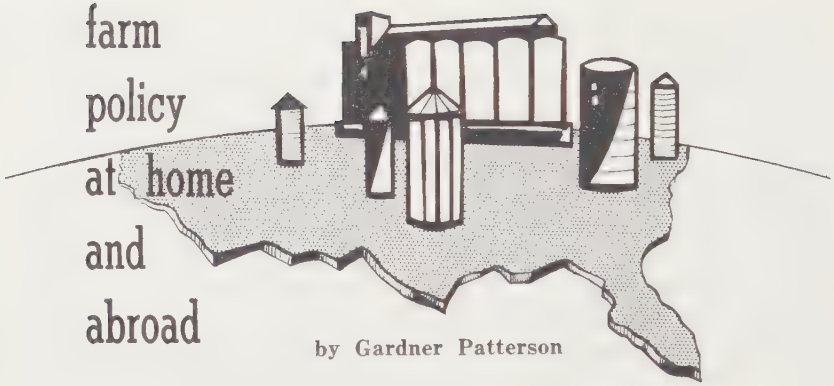
Propaganda has twin assets. It appeals as "mass communication" to the "audiences" who now are decisive in policy-making throughout the world. It compels us to see ourselves as we would like others to see us, and to do something about it. We can afford the discordances as long as the ideas remain sound. And that, after all, is what democracy is about. ■

Answers to Challenge Quiz

(See page 79)

(1) True *(see page 19)*
(2) True *(see page 28)*
(3) False *(see page 56)*
(4) False *(see page 31)*
(5) False *(see page 62)*
(6) True *(see page 7)*
(7) True *(see page 24)*
(8) True *(see page 13)*
(9) False *(see page 38)*
(10) False *(see page 47)*
(11) True *(see page 65)*
(12) False *(see page 43)*

farm policy at home and abroad



by Gardner Patterson

How we handle our excess agricultural produce will have a profound effect on this country's international relations

■ A STRIKING FEATURE of our rural landscape nowadays is the acre upon acre of silos, granaries and warehouses filled with "surplus" agricultural products, mostly wheat, cotton and corn. Produce moves in and out, the level and composition changes, but during the last few years the stocks totaled, as measured by the Commodity Credit Corporation investments in them, between $7 billion and $9 billion.

Why do we have these surpluses? What bearing do they have on our foreign policy–a policy which, among other things, demands generous cooperation in military and political matters by scores of other nations and aims at a steady improvement in their economic well-being, nations to whom foreign trade is of much greater importance than it is to us?

Although the surpluses are not primarily a reserve consciously accumulated in years of plenty to take care of us in years of want, they have served such purposes during World War II and, to a lesser extent, in the Korean war, and might be so used again. In the main these are *market* surpluses, because at the ruling prices farmers have found it worthwhile to produce more than consumers have been willing to buy. This situation had its proximate origin more than a quarter of a century ago when the government began a vigorous and varied program of attempting to improve farmers' net incomes. One method, only one of many but a central one, was to set floors under prices for major

farm products, the floors usually being higher than the prices that otherwise would have ruled. These price supports were sometimes accompanied by efforts at limiting production, but these production restraints have been less than completely effective in the face of the farmers' shrewdness and the rapid improvements in farm technology. The consequences: surpluses.

During most of the 1930s only relatively small stocks were built up, the production controls being fairly effective and "relief" being provided by the severe droughts of the middle Thirties. The surpluses piled up during the turn of the decade proved most useful in meeting the huge World War II needs. By the end of 1946, CCC investment, including inventories, loans and purchase agreement obligations in price support farm goods, totaled less than a half billion dollars. During the next three years, however, stocks in government hands accumulated rapidly and nearly reached $4 billion by the end of 1949. Relief was again provided by war–this time in Korea–and the stocks declined to less than $1.5 billion by mid-1952. Thereafter, they rose rapidly, touching nearly $9 billion in the spring of 1956. Vigorous efforts to dispose of them, particularly abroad, had by then gotten under way and for a while resulted in a gradual liquidation, CCC investments totaling $7.3 billion in mid-1957; but good crop conditions in 1958 resulted in a build-up by early 1959 to the previous peak of $9 billion.

These surpluses developed out of the domestic policy of improving farmers' incomes. But since most of the affected goods are also traded internationally, and since the United States is a major exporter and importer of agricultural goods, foreign policy is involved as well.

It should be noted that international issues would face us even if no surpluses accumulated. So long as our farm policy calls for price supports higher than world market prices, the U.S. government must either prevent foreigners from selling similar goods here or be prepared to subsidize foreign farmers from the federal budget. The result of such a process would be to build up surpluses inside the United States of both domestic *and,* in effect, foreign-grown products. This obviously has little appeal, and so we have virtually embargoed the import of most farm goods enjoying price supports. Although usually we have the approval of the multinational General Agreement on Tariffs and Trade, the practice is resented by other nations who believe that it deprives them of possible markets. It is also criticized as inconsistent with the oft-em-

phasized U.S. policy favoring enlarged world trade. Our leadership qualities are thus called into doubt and cooperation made more difficult.

A temporary problem

Once our farm policy resulted in the accumulation of surpluses, other serious problems came to the fore: Should the stockpiles be regarded as a long-term problem requiring long-term policies; and is it feasible and desirable to export sizable portions of these surpluses?

It has been our policy to regard the surpluses as a temporary problem and to make decisions about them on a year-to-year basis. We have no long-term policy. As to the second problem, it has long been established that it was at least feasible for the U.S. government actively to encourage exports of farm foods. The following are some of the more important measures in recent times. The Federal Farm Board sold wheat for export at "concession" prices in the early 1930s. The 1935 Agricultural Adjustment Act authorized the use of up to 30 per cent of the proceeds from import duties to subsidize exports and encourage domestic consumption. The International Wheat Agreement usually calls for an export subsidy by the U.S. government. It has been common practice for the Export-Import Bank to help relieve the situation by providing loans for the export of surplus commodities.

More important has been the help given via the various foreign aid measures of the post-World War II period. In 1948, Congress passed the provision that any Marshall Plan-financed purchases of farm goods in surplus in the U.S. must be purchased here rather than elsewhere even though they cost more. The 1953 Mutual Security Act specified that a portion–at least $100 million–of the aid funds must be used to purchase surplus agricultural products. For obvious reasons these provisions tying foreign aid to farm surpluses were often bitterly criticized by the recipient nations and by representatives from exporting countries. It must be acknowledged, however, that some of these sales would have been made in any case.

In the face of the rapidly mounting surpluses, the majority in Congress found these measures inadequate, and in 1954 passed the Agricultural Trade Development and Assistance Act, popularly known as Public Law 480. This law, since broadened, had many purposes, but chief among them was the one facilitating the disposal abroad of farm surpluses. In addition to outright grants and donations for famine relief abroad, the law authorized the government to *accept payment in local currency* for sales

of such goods to friendly foreign countries. These exports are supposed to take place only when they will not be "unduly" disruptive of world markets. But the result is that foreigners may buy our farm surpluses without having to pay for them in foreign exchange. It is basically a device for giving away the surpluses.

Exports under these various government aids have increased rapidly in recent years, rising from around $500 million in fiscal 1953 to $2 billion in 1957; they apparently fell off somewhat in 1958, although details are not yet available. Looked at another way, in 1957 at least half our agricultural exports received direct government support in one form or another. In the same year over 70 per cent of the CCC stocks that moved were exported.

Unfair competition?

These surplus disposal programs –and especially those under PL 480 –have been bitterly criticized as grossly unfair tactics by several of our allies whose farmers also depend heavily upon foreign markets. The sale abroad of farm goods at prices below those in the U.S. is commonly regarded by foreigners as "dumping," and as flagrantly unfair competition. The core of their protest is that our high guaranteed minimum prices–prices well above world market prices–not only encourage domestic production, but also reduce consumption in the U.S. itself, the world's largest market. Large surpluses accumulate and these, or a part of them, are then "unloaded" at lower prices on the world markets, taking away the customers of nations whose farmers could, it is alleged, out-compete the American farmer in a free market.

Furthermore, the mere existence of our huge stocks overhanging the world markets creates instability–and U.S. stocks currently equal over 80 per cent of recent annual world exports in wheat, 400 per cent in coarse grains and about 75 per cent in cotton. In sum, our farm policy is seen as reducing and disrupting markets for our friends all over the world, a policy clearly in conflict with American foreign policy.

There are offsetting considerations. A large but unknown amount of subsidized exports, especially those shipped under PL 480, go to nations who would not otherwise purchase the products and do not, therefore, deprive third nations of export markets. But they do relieve hunger and help the recipients to get on with the job of strengthening their own economies, both of which are in the foreign policy interests of the U.S. and all her allies. Export subsidies are a form of foreign aid, and it is probable that aid in the form of

surplus farm goods is in large part a net addition to the help we would otherwise provide. It is true, however, that the political benefits of our surplus disposal are reduced by the fact that the recipients often appear to believe that they do us a favor by taking some of the burdensome accumulations.

Accepting for present purposes the social and political desirability of government action to buoy farm incomes, most economists today would probably urge the use of methods other than price supports. Government action holding up prices reduces consumption and requires government intervention in both our import and export trade, thus creating frictions with our allies. It also has the basic defect of encouraging a too great allocation of both capital and men in the production of the affected goods. A farm policy less fraught with danger to our foreign political objectives and more in our domestic interest would be one which facilitated the movement of farmers into other occupations, and supported, where still necessary, the agricultural sector by limited direct income payments, while letting the prices to domestic and foreign consumers of our farm goods fall to the world level. A place would remain for exporting farm goods to those needing them under our foreign aid programs.

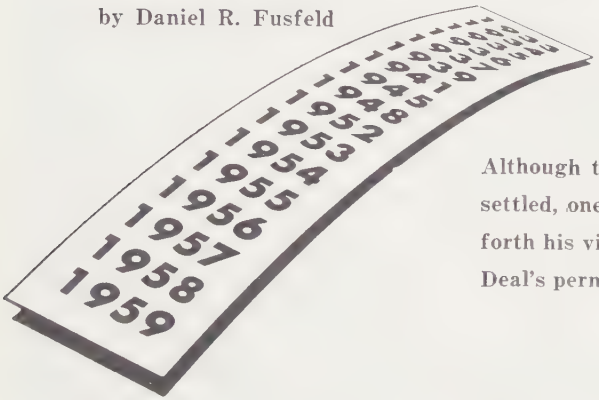
This policy would raise a hornet's nest of problems, but so has the present policy. Such a change has the bright promise of leading to a more efficient use of our resources, of encouraging consumption, of reducing the build-up of surpluses, and of tempering the conflicts between our domestic agricultural policy and our foreign policy. ■

A Foot is Not a Foot

STANDARDS for the measurement of length originally represented parts of the human body. Convenience of the units of measure made up for the lack of accurate universal standards. The unit of measure in ancient Sumeria and Egypt was the *cubit* which was measured from the length of the forearm from elbow to middle finger tip. The Olympic *cubit* of 18.24 inches became the *foot* which was subdivided by the Greeks into 12 thumbnail breadths. The foot was adopted by the Romans and passed on to Britain where the thumbnail divisions were termed *inches*. In Britain, the Roman foot became merged with Anglo-Saxon measures which contained the *fathom* or length across two outstretched arms. In Norman times, when the cloth trade was flourishing, *half-a-fathom* or the length of one outstretched arm was found to be a more convenient length. In this way today's yard of three feet arose. Standard units were kept in the King's Exchequer but few have survived. In 1855 two copies of the yard were presented to the United States and were accepted by the Office of Weights and Measures.

The New Deal in Retrospect

by Daniel R. Fusfeld



Although the dust has not yet settled, one economist puts forth his views on the New Deal's permanent contributions

IT HAS BEEN fashionable to view the New Deal as a makeshift program improvised to meet emergencies and with no consistent social philosophy, moving as political exigencies forced it to move in efforts to gain and retain political favor. Improvisation, not a fundamental social philosophy, has been said to be its underlying dynamic.

Yet, viewed from the vantage point of a quarter of a century later, that evaluation is clearly untenable. The New Deal brought to dominance in America a new social philosophy that remains the basis for most government action today. Its foremost contribution to our time is the view that a self-adjusting market economy does not adequately protect human values, resources and society itself, with the corollary that government action to achieve socioeconomic goals is necessary. Allied to this position was a new view of man and a new approach to the purposes and functions of business enterprise in society. Today it is clear that the five years from 1928 to 1933 represent a greater distance–measured in terms of social philosophy–than does the quarter century since 1933.

The most important aspect of the social philosophy of the New Deal was the belief that society as a whole, functioning through government, must protect itself against the impersonal and amoral forces of supply and demand. It represented a great shift away from the philosophy that the self-adjusting market should be given free sway, and that people, resources and wealth ought to be

treated essentially as commodities.

It is true that the old ideas were changing before the Thirties: witness the welfare legislation of New York and Wisconsin, the conservation movement prior to World War I, and the gradual acceptance by government of the use of monetary policy to promote economic stability. Crusaders and critics from the Populists onward had been forging the social philosophy of the New Deal.

Three main types of direct intervention in economic affairs were the New Deal's method of achieving its goals. The first was the assumption by government of responsibility for something close to full employment prosperity, although unemployment was never conquered until the war. The most effective approach developed by the New Deal was use of the federal budget to assure an adequate level of total spending, and the deficits of the Thirties were an effort to supplement inadequate private spending with public. There is little disagreement with this sort of policy today. It has been embodied in the Employment Act of 1946 and institutionalized in the President's Council of Economic Advisers. Both major political parties agree that responsibility for economic stability and expansion–with or without inflation–belongs with the federal government.

Less successful was the National Recovery Administration (NRA) experiment, that great effort to promote economic stability through cooperation between businessmen and labor in individual industries. The experiment failed, and has been one of the most heavily criticized of the New Deal programs. The New Deal itself abandoned it and in the later Thirties turned full circle to the perhaps equally untenable position of promoting competition as advocated by the Temporary National Economic Committee. Whatever the merits of the case, in two natural resource industries–petroleum and coal–the spirit of the NRA lives on. In oil, the states regulate production, while the federal government supervises imports and acts to constrain oligopoly and quasi cartelization abroad. The coal industry is characterized by labor-management cooperation and coordination today. The basic philosophy of the NRA is still with us, although it is no longer part of the liberal creed.

Land-use planning

The third main type of government intervention in economic affairs was regional land-use planning based on water resources. Typified by the Tennessee Valley Authority, the principle was the outgrowth of a number of pre-New Deal policies: reclamation, waterway development, forest conservation, city planning and the

controversy over electric power development. Today we take for granted the desirability of unified development of water resources and related land uses. The debates are limited to the respective roles of the federal and state governments and private enterprise.

Supplementing the New Deal's economic interventionism was a new view of the place of the individual in society. The older philosophy–that the individual seeking his own best interests would contribute most to society as a whole, and the corollary that those who were unsuccessful ought to bear the cost–was no longer tenable in a modern industrial society, particularly one plagued by a depression that crushed everyone, including intelligent, hard-working, sober businessmen. In its place came the belief that society had a responsibility for the welfare of each person, partly because the individual contributed to society by his work, by raising a family, and by his participation generally in the activities of the social order, and partly because the problems of an industrial society were often too great to be solved individually.

Environment of security

This position was given support by the belief that the individual can function best, both in his own interest and as a contributor to society, in a secure rather than an insecure environment. One of the goals of New Deal policy was the creation of an environment of economic security that would release greater individual energies and in the long run would more than compensate for the costs involved. In practice this meant a range of welfare legislation–unemployment insurance, social security, workmen's compensation, and federal grants-in-aid in health and education–which also have achieved general acceptance.

Another major building block of the New Deal's social philosophy was a new position on the social responsibilities of the businessman. In the pre-New Deal era profit and success were their own justification. Wealth came to one not only because of hard work and ability, but also because the search for wealth resulted in meeting the needs of others, "as if by an invisible hand."

The New Deal changed all this. Embodied in its attitude that the market economy often ran roughshod over human and social values was the belief that individual gain was not always synonymous with the social good. This meant that success and profit, wealth and ease, were not enough. Business had to justify itself on other grounds. Nowhere were these broader goals spelled out in detail, but the import of New Deal legislation indicated that they included reason-

ably stable operations, broadly effective labor-management relations, prices that were not excessive, and straightforward financial activities.

It has sometimes been said that the antagonism of business to the New Deal was the result of the lesser place in society that was given business by the rise of government intervention, compounded by the aid to labor unions as a challenge to the businessman within his own enterprise. There may be much truth in that argument, but perhaps even more significant was the challenge to business as an end in itself. In effect, the New Dealer was saying to the businessman, "You're a success, but look at the mess you made of the economy and how much it has cost in human suffering." Such a viewpoint, assuming that the businessman bore sole responsibility for the "mess," is hardly calculated to make friends.

Whatever its origin, a new element has been added to business thinking, although in some instances it goes deeper than public relations efforts to create a "corporate image" in the mind of the public. We can observe a major steel company cooperating vigorously with the local government to establish park and recreation facilities, another firm filling its annual reports with the plea that profits after taxes must be improved to enable the company to meet the needs of a growing America, and a national science scholarship program financed by a large electrical equipment manufacturer. Emphasis on the social responsibility of the businessman is taught at our leading colleges of business administration.

Bits and pieces

It is important to note that the New Deal leadership did not fight its political battles on the grounds of its social philosophy, but on legislation that embodied bits and pieces of an applied program of action. Too pragmatic for ideological battles, and much too shrewd a politician for abstract argument, Franklin D. Roosevelt led the New Deal toward specific goals and specific legislation. When he did try to fight for his program on ideological grounds–the Supreme Court battle of 1937–he was badly beaten, although in the end he had his way as far as approval of social legislation was concerned. This emphasis on practical action rather than theoretical debate was politically sound, and it was thoroughly within the American tradition. More important, it minimized the inevitable dissention, class conflict and ideological warfare that the rise of a newer social philosophy to predominance inevitably brings.

Especially helpful in reducing

the bitterness that did result was preservation of individual decision-making by consumers and business –one of the basic tenets of American individualism–even though the socioeconomic framework was to be restructured. Detailed economic and social planning or controls were never part of the New Deal philosophy, and the individual was left free to spend or save, to choose his occupation and to make his own business decisions.

The political success of the New Deal, however, was in domestic policy. Its foreign policy was unable to make headway against the isolationism of the Thirties. The rise of Nazism, the Italian aggression in Ethiopia, the resurgence of active militarism in Japan, the civil war in Spain, and the rapid degeneration toward World War II in 1937 and 1938 were recognized as major threats to world peace and to the security of the United States by President Roosevelt and Secretary of State Cordell Hull. But the desire of Congress and the public for neutrality was too strong to permit anything more than speeches ineffectively denouncing the aggressors and warmongers.

The relationship of the social philosophy of the New Deal to the climate of opinion is shown by the inability of its leadership to break a pathway to internationalism in opposition to that climate of opinion. Furthermore, the New Deal legislation had important elements of economic nationalism. Perhaps it is asking too much to expect that the New Deal, forged out of American problems and coming to dominance in a domestic crisis, could have had a consistently internationalist viewpoint. Domestic problems held the center of attention, even of Roosevelt and his advisers, until well after the 1936 election, and isolationists who supported New Deal domestic policies could not be induced to support Roosevelt's increasingly internationalist position from 1937 on. There is even doubt as to the appropriateness of applying the New Deal label to the foreign policy of the Roosevelt Administration.

Whatever its limitations, the New Deal has left a social philosophy that remains to this day a major influence on American life. Just as the New Deal built upon the ideas of earlier reform movements, future movements for change and reform will build upon the heritage of the New Deal. ■

Coming: Another Viewpoint

IN A forthcoming issue, CHALLENGE will present an article which will discuss the New Deal from a different point of view than Dr. Fusfeld.

THE PERMANENT FRONTIER

No. 16: the government changes its role in the emerging big-business economy

■ THE SWIFT industrialization of a raw continent was costly. A new nation tried out new techniques that sometimes failed and always caused strains. "We have been proud of our industrial achievement," Woodrow Wilson told the nation in his 1913 inaugural address, "but we have not hitherto stopped thoughtfully enough to count the human cost."

New kinds of "power" came with the new society. A new hierarchy emerged, as the successful entrepreneur and corporation replaced the traditionally dominant landed and commercial classes. More and more after the Civil War, the Republican and the Democratic parties felt the influence of the new men of power.

Ideas changed, too, in the new environment, and the dominant ideology of the post-Civil War decades smothered the critics of business enterprise. A mixture of materialism, idealism and "scientific determinism" comfortingly assured most Americans that there was no contradiction between self-interest and the public interest, and that laissez faire not only was "just" in its distribution of rewards but also necessary for "progress" and "civilization" itself.

Drawing upon evolution and the doctrines of the more pessimistic classical economists, the "science" of social Darwinism talked of inviolate "social laws of development" as it transferred the concepts of "natural selection" and "the survival of the fittest" from the animal world to the human sphere. A proponent of this doctrine, therefore, advised a critic of the social cost of industrialization: "We can only wait for evolution. Perhaps in four or five thousand years evolution may have carried men beyond this state of things."

Starting in the 1870s, protest movements and reform groups of one kind or another sought to check the power of business enterprise. Writing of the years before 1900, Mark Sullivan observed: "The average American in great numbers had the feeling that he was being 'put upon' by something he couldn't quite see or get his fingers on; that somebody was 'riding him.' . . . Vaguely he felt that his freedom of action, his opportunity to do as he pleased was being frustrated . . . This unseen enemy he tried to personify. He called it the Invisible Government, the Money Interests, the Gold Bugs, Wall Street, the Trusts."

The movement for reform differed in time and place between 1870 and 1917 and drew support from one group for certain reasons and then from another for still different reasons. A small but vocal number of Americans turned toward socialism in the post-Civil War decades but most of the critics of business enterprise accepted the notions of the "free market," private property and the private entrepreneur. They sought mainly to limit excessive monopoly of power, alter the distribution of income, strengthen the state as a regulatory and "countervailing" agency, and purify the democratic process.

The objectives of these reformers differed widely. In the 1880s, a number of wealthy, thoughtful aristocrats entered politics solely to challenge the corruption and materialism in the public life of that day. Even earlier, farmers, small businessmen and large commercial shippers, complaining of the onerous rate policies of the railroads, had agitated for regulation that first resulted in the Interstate Commerce Act of 1887. This pioneering legislation prohibited rebates, pools and certain freight rate discriminations. It provided that interstate rates be "reasonable and just," although it failed to establish the necessary criteria, and set up the Interstate Commerce Commission as a federal regulatory agency.

At the same time, pressure from small businessmen, farmers and labor resulted in further anti-monopoly legislation. States, especially in the South and West, passed "antitrust" laws that emphasized common law notions about monopoly and restraint of trade. In 1890, Congress pushed through the Sherman Antitrust Act.

Neither the ICC nor the antitrust legislation proved effective in the early years. For one thing, the laws were loosely drawn and political in character. The conservatism of the judiciary also watered down each of these efforts at business regulation. Of 16 cases that reached the Supreme Court between 1887 and 1905, the Court decided against the ICC 15 times.

From 1890 to 1901, furthermore, the Justice Department started only 18 antitrust suits, and four of them were against trade unions.

The movement to regulate excessive power by government intervention became more serious after the 1893 depression started. From that year until the start of World War I, laissez faire underwent severe criticism, re-examination and modification. The business community itself looked to the "finance capitalist" to check the excesses of the free market. After the 1893 depression had revealed the weaknesses of such a market, the business community anxiously looked for a system of *self-regulation.*

At the same time, the Populist party offered another answer. It drew its main support from pressure groups like the various regional Farmers' Alliances, which expressed the demands of the debt-ridden but property-oriented farmers of the West and the South. Populism, ridiculing the notion of self-regulation, attracted nationwide attention during the depression years of the 1890s.

"Natural monopolies"

The Populists talked of government intervention and public regulation. Urging a broader distribution of wealth, the Populists also pleaded for government-sponsored credit, a managed currency ("Free Silver"), a graduated income tax, an eight-hour day, the direct election of Senators, a secret ballot, and government ownership of the railroads and other "natural monopolies."

The Progressive movement dominated the American political scene after 1900 and until the nation entered World War I. Concerned with many of the same problems as the Populists, the Progressives nevertheless had a different origin and a different focus. Populism drew upon agrarian discontent and was born of depression and despair. Progressivism, on the other hand, was rooted mainly in the urban middle class and thrived in an era of economic growth and general prosperity.

There was no single Progressive movement. It attracted enlightened conservatives like Theodore Roosevelt, agrarian Democrats like Robert LaFollette and professional politicians. In the main, however, the Progressives symbolized the urban adjustment to the "new society" as they grappled with the problems of business concentration, the integration of immigrants and political corruption.

On one level, Progressivism meant a faith in the pliability of human nature and institutions.

This is the sixteenth article of a series in CHALLENGE which deals with the history and development of the United States economy.

"Political" Progressives talked of a restoration of political democracy and favored "restoration" of the government to the "people." They supported the direct primary, the initiative and the referendum, the recall and similar techniques of "direct democracy."

Formed pressure groups

Other Progressives found political reform insufficient and therefore formed pressure groups like the National Child Labor Committee, the National Consumer's League and the General Federation of Women's Clubs. These and similar organizations proposed and fought for state laws that protected children and women, offered workman's compensation, protected public health and even fixed minimum wages. Between 1902 and 1909, for example, 43 states adopted child labor laws.

Still other persons favored reform for different reasons. Some came from the patrician class and represented a tradition of *noblesse oblige*. Some were perceptive business leaders who feared extreme change and therefore favored moderate reform. Theodore Roosevelt, a conservative nationalist of patrician origin, thoughtfully expressed the views of such persons. "I do not at all like the social conditions at present," he wrote William Howard Taft in 1906. "The dull, purblind folly of the very rich man," the President went on, "their greed and arrogance, and the way in which they have unduly prospered by the help of the ablest lawyers and too often through the weakness or short-sightedness of the judges . . .; these facts, and the corruption in business and politics, have tended to produce a very unhealthy condition of excitement and irritation in the popular mind, which shows itself in part in the enormous increase in socialistic propaganda."

Roosevelt, the master political strategist, drew support from both reformers and enlightened businessmen as he talked of the difference between "good" and "bad" trusts and advocated "regulated monopoly." At the same time, he carefully absorbed some of the welfare notions advanced by the social justice pressure groups.

Other national Progressive leaders turned in a different direction. Louis Brandeis talked of the "curse of bigness." Woodrow Wilson's idea of the "New Freedom" meant simply the abolition of special privileges and "class" legislation as well as a system of "regulated competition." Later in his career, however, Wilson also talked of the wisdom of welfare legislation. "The firm basis of government," Wilson explained, "is justice, not pity . . . There can be no equality of opportunity, the first essential of justice in the body

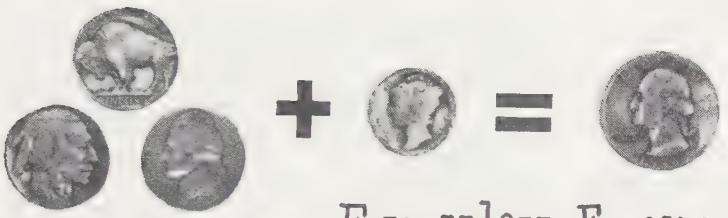
politic, if men and women and children be not shielded in their lives, their very vitality, from the consequences of great industrial and social processes which they cannot alter, control or cope with."

The Progressive Era witnessed a further extension of goverment's role in the economy. The legislation of that era challenged the notion of self-regulation and the idea that the public benefited from the operation of unregulated self-interest. Regulatory legislation was strengthened. The Interstate Commerce Act was amended several times. The Clayton Act clarified certain vagaries in the Sherman Antitrust Act. The Pure Food and Drug Act also symbolized the emphasis on regulation. Most important, however, the establishment of the Federal Trade Commission by Congress extended the principle of public regulation to the productive sphere; while the setting up of the Federal Reserve System altered the power of the private banker and strengthened public control over money supply.

The emphasis on government "aid" shifted, too. For decades public officials had encouraged the process of capital accumulation. The Underwood Tariff, however, marked the first substantial downward trend in import duties since the Civil War. For the first time conservation of natural resources also became a national concern.

Limited welfare legislation became more important. The various states passed laws that protected women and children. Progressive taxation of personal income as well as corporate income started. The Adamson Act saw the government intervene on behalf of the railroad workers, and the Federal Farm Loan Act brought cheap credit to the farmers. The first important steps toward a better balance in the economy had been taken. ■

NEXT MONTH: the rise of the United States as a world power



Everyday Economics

■ SUMMER WORK performed for a parent by a child under 21 years of age is not covered by social security. Also not covered is the work of a wife for her husband, and vice versa. The work of a minor child for an employer who is not his parent *is* covered by social security, and social security tax will be deducted from his pay, regardless of his age.

Classified information

MOST employment agencies usually specialize in a particular field. As a rule, a listing of an individual job opening indicates additional openings of a similar type, and that applicants of the caliber implied are welcome. Once an applicant is in the agency's files, he will not be dropped if he telephones occasionally and if he reports to the agency immediately after he is sent for an interview with a prospective employer. Some employers agree to pay the agent's fee and the applicant should inquire if this is the case *before* his interview with the employer. Recent graduates should list *any* previous working experience; many employers regard a lack of such part-time or temporary employment as an indication of laziness.

Making the grade

VERY FEW shoppers know that the use of U. S. grades for food is voluntary. Grading services of the U. S. Department of Agriculture must be requested by the food processor, handler or producer, and he must pay for them. The grade is an indication of the use for which the food was intended. Lower grades are of good quality and are as wholesome as higher grades though they may be lacking in attractiveness. Any processor or distributor may grade his product as "A" or "B" if it meets the Department's standards for the grade, even though the Department *did not inspect it.* If "U.S." precedes the grade mark it is an

indication that the processor operates under continuous voluntary inspection by the U. S. Department of Agriculture. Wholesale grades may be indicated on consumer-size packages. Wholesale grades are numerical, not alphabetical, and indicate the quality of the food when it was inspected for wholesale distribution.

Double check

INDIVIDUALS should request a statement of their social security account every three years. Errors discovered more than three years after their occurrence can no longer be corrected. Forms are available at local social security offices.

Mail frauds

FRAUDULENT mail order advertising cannot always be detected before someone has been cheated. The Post Office Department advises prospective purchasers to read the entire advertisement, including the fine type, before sending in an order. Cash should not be mailed with the order; a check or postal money order will provide a record of the transaction. The date of the transaction and the address of the company should be recorded and, if possible, a copy of the advertisement should be kept until the merchandise is received and found acceptable. If the customer feels that he has been cheated, he should save the wrappings of the merchandise or the envelope in which the reply was received so that they can be used as evidence that the U. S. mails were used in an attempt to defraud. Complaints should be filed immediately with postal authorities.

On the record

CERTIFIED copies of birth and death records can be obtained by writing to the vital statistics office in the state where the birth or death occurred. The letter of request should be accompanied by a postal money order covering the fee, and should state: (1) full name of the person in question; (2) month, day and year of the event; (3) place of birth or death; (4) sex and race; and (5) parents' names, including maiden name of the mother. Some states issue wallet-size birth cards for identification purposes. Certificates for foreign-born persons can be obtained from the office of registry of the country of birth. The first letter should contain an international reply coupon which can be purchased in any U. S. post office. When the fee is known it should be paid immediately by international postal money order.–S.T.

The Economy, Liberty and the State. Calvin B. Hoover. 445 pp. New York: The Twentieth Century Fund. $5.00.

•Prof. Hoover, a distinguished economist who has studied (and lived under) a variety of economic systems, addresses himself to one of the most difficult and important problems of our time: the relationship between the productive efficiency of an economic system and the degree of personal liberty which that system affords. The economies of all modern industrial nations have, he observes, become increasingly organized and subject to central governmental controls. In the West, however, economic growth has been geared to the satisfaction of varied individual preferences. But can we assume that our system's spectacular success in providing individuals with a widely distributed standard of living will enable it to compete successfully against a monolithic society like the Soviet Union? Prof. Hoover is not sure that we can—without emulating at least some of our opponent's tactics. Whether or not this can be done without a real loss of liberty he does not say. The one ray of hope that he offers is the probability that the Soviet Union will be forced to change its own resource allocation in response to the pressures of its increasingly powerful middle class.

Dream and Reality. Louis J. Halle. 327 pp. New York: Harper's. $5.00.

•Halle's career is a valuable coin with two possibly contradictory sides. We can take comfort that a man of his admirable judgment once sat on the State Department's Policy Planning Staff; we wonder uneasily about his successors. In any case, his new book is another rich contribution to an understanding of our neo-Clausewitzean world. Halle clearly posits the original sin of American diplomacy, its insistence on dealing with the world in terms of moral exhortations that ignore the power fundament of all policy. Halle shows how moral righteousness can lead to war and how our blunders have helped make a world our isolationism preferred to scorn. Halle demands a clear engagement with the reality, not the dream.

* * *

The Sociological Imagination. C. Wright Mills. 234 pp. New York: Oxford University Press. $6.00.

•Mills campaigns for lucidity and significance in social science. He quotes a full page example of sociological jargon: "An element of shared symbolic system which serves as a criterion or standard for selec-

tion among the alternatives of orientation which are intrinsically open in a situation may be called a value." –continuing with phrases like "derivation of normative orientation" and "integrate the action system . . . interpersonally." Mills translates: "People often share standards and expect one another to stick to them." Mills' targets are the grand theorists who erect systems of verbiage with little pertinence to the actualities of the social structure, and the machine-brained empiricists who lavish field work and statistical techniques on trivial questions. Mills advocates instead the ancient notion of hard thinking about the real world.

* * *

The Roots of Capitalism. John Chamberlain. 222 pp. Princeton: Van Nostrand. $5.50.

•Capitalism would be better served by its friends if they did not strain to justify what needs no justification. Chamberlain's effort is a tired exercise in old arguments and new quibbles. It shows how wrong mere accuracy can be when one tries to measure the real magnitudes of human experience. The author makes much of the errors he can so easily find in Ricardo, Keynes or Marx. He fails to understand that greatness in ideas is inextricably bound up with wrongheadedness. Chamberlain is emotionally selective in his standards; he condemns Ricardo and excuses Adam Smith for accepting a labor theory of value. Chamberlain's sin is not that he is wrong but that he is trivial–whether right or wrong.

* * *

The Status Seekers. Vance Packard. 376 pp. New York: David McKay. $4.50.

•A former journalist makes a tour of the sociologists who have been studying social stratification. Packard ably enough fits their findings into a coherent rewrite but he lacks the scholarship and training to do anything with the material. He finds that our mobile society is slowing down and he pleads vaguely for more opportunity and less prejudice. He notes the corporate hierarchies that continue to expand at the cost of the free individual. While he believes that inequality is becoming more pronounced, he gives numerous examples of social advances that have come with increased affluence. One wonders if many inequalities, so justly decried today, were not much worse yesterday, when no one questioned them.

* * *

Women and Work in America. Robert W. Smuts. 155 pp. New York: Columbia University Press. $4.50.

•The revolution in the working status of American women has not been a sudden shift from idleness to constructive employment. The change has come in the type of work done, and *where* it is done. As America changed from a rural to an urban society, women kept pace by turning from unpaid work at home to the performance of additional paid tasks in the home like taking on boarders and piecework. As working conditions and changing attitudes permitted, they found employment outside the home. Contemporary writings show how the women accepted their new roles, why they work, and how their abilities determine their opportunities. The revolution continues as increasing numbers of women join the working force. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 59.

(1) The U.S. defense budget pays for 40 per cent of the nation's total research.
True ☐ **False** ☐

(2) The F.C.C. requires all radio stations to provide certain program services in the public interest.
True ☐ **False** ☐

(3) The charter of the U.S. Information Agency explicitly charges the body with the dissemination of pro-American propaganda.
True ☐ **False** ☐

(4) Nearly 60 per cent of workers in the service industries are union members.
True ☐ **False** ☐

(5) Decisions regarding farm surplus are made in accordance with long-term policy.
True ☐ **False** ☐

(6) Since 1945, the French economy has been expanding at a more rapid pace than ours.
True ☐ **False** ☐

(7) The nation's first atomic submarines were built by the Electric Boat Division of General Dynamics Corp.
True ☐ **False** ☐

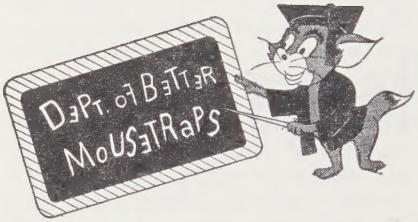
(8) A relatively good dividend return is no longer a major factor in persuading investors to buy a given stock.
True ☐ **False** ☐

(9) It is theoretically impossible for man to build a machine more complicated than himself.
True ☐ **False** ☐

(10) U.S. exports account for 10 per cent of national income.
True ☐ **False** ☐

(11) New Dealers maintained that a self-adjusting market economy does not adequately protect human values.
True ☐ **False** ☐

(12) The F.T.C. requires advertisers of "innovations" to provide documented evidence.
True ☐ **False** ☐



Home Gardener: A strip of plastic ribbon containing annual flower seed dissolves after planting and does away with the tedious chore of spacing seed in rows . . . A spraying unit attaches to rotary lawn mowers to permit simultaneous mowing and weed-spraying . . . An instant mower starter that eliminates the strain and dangers of pulling starter ropes. The unit can be installed on most mowers that have the conventional rope or rewind starters.

* * *

On the Waterfront: *For water skiers, an automatic device that flashes a red light on the boat's dashboard when the skier falls off. Tugs on the towline can also convey messages from the skier . . . A plastic resuscitator small enough to fit into a beach bag . . . A water purifier for backyard pools comes in a plastic "squeeze" bottle with instructions for determining proper dosage for a wide variety of pool sizes . . . A laminated mahogany canoe keeps boatsmen dry on land or water. It comes in two halves which can be set up on the beach to form wind shelters.*

* * *

The Home Workman: A portable cement mixer that can mix eight cubic feet of concrete per hour. All parts fit into the five-gallon pail that serves as a mixing drum . . . Aluminum sawhorse legs which fold up for compact, space-saving storage . . . A magnetic doorstop which also holds the door open is easy to install and costs less than a dollar . . . A nonstaining, greaseless lubricant comes in a spray can and may be used on painted surfaces, wood, metal, rubber, leather and plastics . . . A utility rod that requires no fasteners and has rubber ends to protect walls and woodwork. It can be used for drying clothes or in the children's room as a clothes rack, adjusting upward as they grow . . . Plastic gutters that are light and easy to install. They require no painting and will not split in freezing temperatures.

* * *

Children's Corner: *A turtle-shaped plastic wading pool that can double as a sandbox . . . A harmless gun that uses potato pellets as ammunition. A single potato yields about 300 rounds of ammunition . . . A toy polyethylene frogman, propelled by squeezing a rubber bulb . . . A plastic three-dimensional map of the United States can be painted and then washed clean.*

* * *

Vacation Finds: For color photographers, a high-speed (index, 160) 35 mm. film . . . For outdoor cooking, a combination stove, vertical broiler and radiant heater that is portable and operates on propane gas . . . A woman's raincoat made of paper and lined with nylon fibers. It can be thrown away at the end of the trip.

* * *

Personal Business: *An eyeglass repair kit consisting of an optical screwdriver and standard frame screws and nuts . . . For the frustrated, automatic chopsticks that are hinged together.*

* * *

Write to CHALLENGE magazine for additional information. ■